

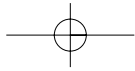
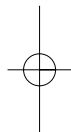
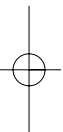
STABILITY PACT

SOUTH EAST EUROPE COMPACT FOR REFORM, INVESTMENT, INTEGRITY AND GROWTH

Strategic Investment Promotion **Successful Practice in Building Competitive Strategies**

PREPARED BY THE OECD AND THE SOUTH EAST EUROPE
REGIONAL ROUNDTABLE ON INVESTMENT PROMOTION

JUNE 2002



Foreword

Transition economies today need new private sector investment to underpin and drive their reform programmes. Private investment provides the essential stimulus for driving economic growth and creating vibrant market economies. Acquiring foreign direct investment (FDI) is a major challenge for all countries. Competition is increasingly world-wide, especially for smaller countries that may not have the drawing power of a major domestic market or natural physical resources to entice investors to invest in their country. However, OECD Member country experience and indeed that of many developing economies has shown that attracting FDI can be highly successful if sound economic and structural policies, leading to an environment that is conducive to business, and a broad strategic approach to investment policy and promotion are pursued.

This publication highlights the *strategic policies and practices* that provide a competitive foundation for attracting FDI. It contributes to meeting a central challenge for all transition countries – building the *essential capacities* within a country to develop *competitive strategies* to increase investment. Success over time in attracting international investment demands strategic policy and promotion solutions that meet individual country needs and simultaneously address a rapidly changing and competitive world environment. This document therefore provides guidelines on the “*competitive building blocks*” of investment promotion strategy rather than simply documenting and proposing the imitation of the practices of other countries. In brief, the emphasis is on the *strategic approach* that countries should take as they seek FDI. Many countries and investment promotion agencies concentrate on the operational techniques of promotion, which are of course important for investment promotion. But they are the instruments of strategy and not the strategy. In the global and highly competitive environment of today it is more important than ever for all countries that aspire to attract increased private investment, especially transition countries, to put in place a foundation of competitive strategy to improve the business environment and facilitate investment.

There is no single model of success when it comes to investment policy and promotion or indeed in any scenario of business strategy and competition for investment. However, there is much valuable insight to be gained from other countries’ experiences and common general practices that can be identified – as the short case studies and commentaries in the document show. Successful policy and promotion need in the final analysis however to be grounded on the specific needs, culture and business opportunities of investment host countries. The objective of the guidelines is to *strengthen regional capacities* to undertake this task and build a better strategic approach to investment policy and promotion in South East Europe. They respond directly to expressed demand from the region. The guidelines have been derived from many sources, in particular the successful experience of small and medium-sized countries around the world (e.g. Chile, Costa Rica, Czech Republic, Estonia, Hungary and Ireland), but include regions in larger countries such as the U.K. (e.g. Scotland and Wales). Aimed primarily at governments and investment promotion agencies, they are generic in nature and relevant to all countries or regions within countries.

Understanding and responding to the investor’s requirements is fundamental to a successful FDI policy. The guidelines point to the need at all times to look at the investment decision from the perspective of the investor as well as the host country or region. Indeed, the key contribution that close partnership with the private sector can play through, for example, regular consultation on the legal framework and policies, membership of investment promotion agency board structures and directly assisting in promotion are central elements that the guidelines recommend.

Similarly, the guidelines emphasise action to improve the business climate so that investors are attracted to do business and enhance their competitive strategies and profitability. Building an attractive investment environment is a long-term process. It requires understanding and support from social partners, investment

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in infrastructure, reform of legal and administrative structures, and continuous feedback from private sector investors on how they perceive the attractiveness of the location. The scope of policy needed to improve the investment environment demands input and partnership from many ministries, institutions and agencies, as well as from the private sector. This document is relevant to all such groups. The role of successful investment promotion agencies (IPAs) is crucial in formulating this broad collaborative approach to investment policies and promotion, in reshaping the strategic approach over time and in presenting the investment location as one that meets the competitive business needs of investors.

Adopting these strategic guidelines is not an automatic formula for success in attracting FDI. However, the experience of many countries has amply demonstrated that those countries that do adopt the strategic approach outlined here, that show real commitment to improving their business environment and that create innovative promotional policies along the lines of the guidelines have the best prospect of success.

The Investment Compact is a vital part of the Stability Pact for South Eastern Europe¹ and seeks to support the improvement of the business environment and increased private investment through better policies and enhanced implementation of policy. The core focus of all Investment Compact activity is directed at **building regional capacities** and **implementing best practice policies** leading to vibrant market economies.

The strategic guidelines for investment promotion have been developed by the OECD and the South East Europe Regional Roundtable on Investment Promotion². The progress in implementing policy and increasing FDI has been identified by all countries in the region as a high priority. The guidelines are therefore a practical instrument that the SEE countries can use to compare and develop their approach to attracting FDI and maximising the benefits of FDI to their national economies.

The Stability Pact for South Eastern Europe and the co-chairs of the Investment Compact Project Team, the OECD and Austria, would like to express their appreciation for the partnership with the South East Europe Regional Roundtable on Investment Promotion, within the framework of Working Table II of the Stability Pact, in preparing and presenting these guidelines.



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1. The Investment Compact is a component of Working Table II dealing with Economic Reconstruction, Development and Co-operation. See www.stabilitypact.org and www.investmentcompact.org.

2. The Roundtable consists of representatives of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Moldova, Romania, Federal Republic of Yugoslavia: Serbia, Montenegro. It was established under the Investment Compact for South East Europe to promote the region as an investment location and strengthen the capacities of investment promotion institutions in the region.

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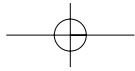
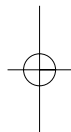
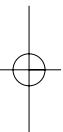
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The Strategic Guidelines document has been prepared by the Investment Compact Team at OECD under the direction of Declan Murphy, Programme Director, Investment Compact for South East Europe, and in partnership with the South East Europe Regional Roundtable on Investment Promotion. It has benefited from the experience and research of David Banks, consultant to OECD, and Professor Stephen Young, University of Strathclyde, United Kingdom. Guidance and advice have been provided by Rainer Geiger, Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs; Pierre Poret, Head, Capital Movements, International Investment and Services Division (CMIS); Mehmet Ögütçü, Head, Non-Members Liaison Group and OECD Global Forum on International Investment, CMIS; Hans Christiansen, Principal Administrator, CMIS.

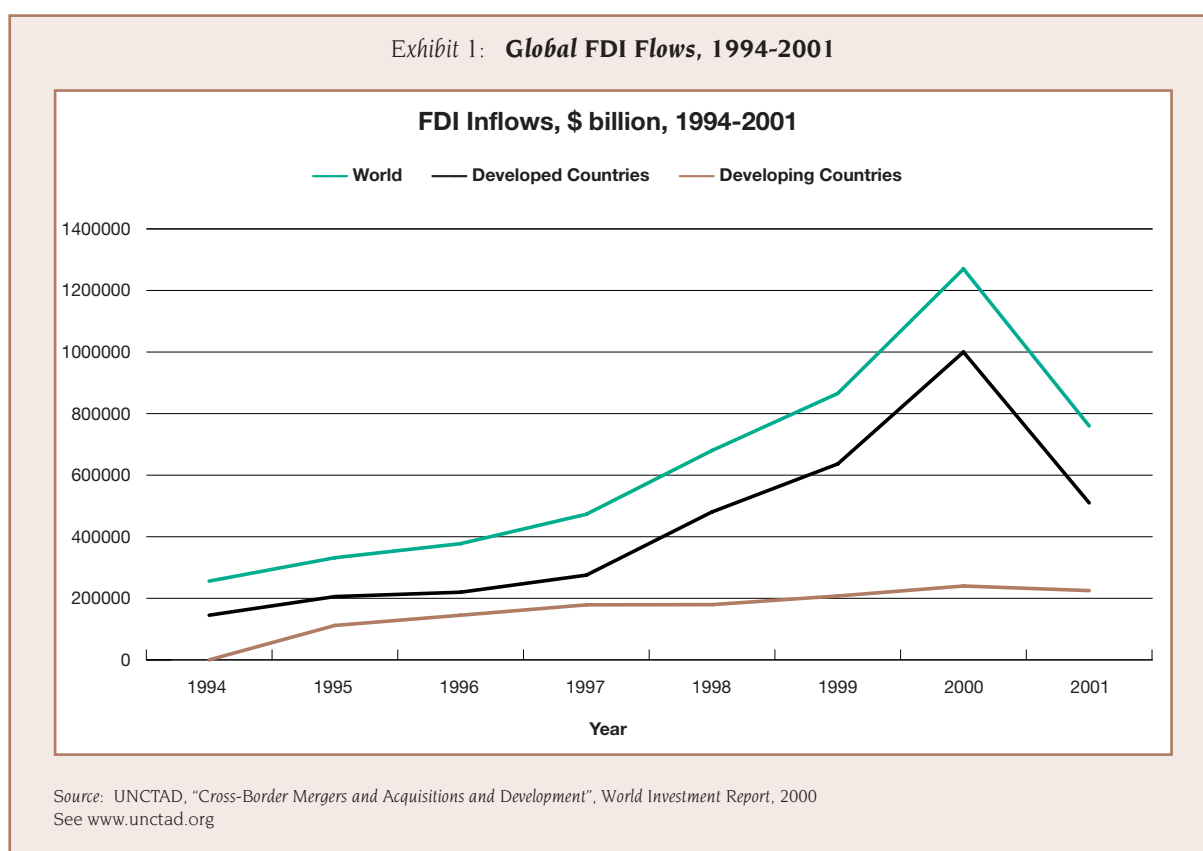
The work of the Investment Compact is supported by Austria, Belgium, Czech Republic, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Norway, Slovenia, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

I. OVERVIEW



1. Foreign Direct Investment Trends

World-wide inflows of foreign direct investment rose from \$330 billion in 1995 to \$1,270 billion in 2000, and are now a major factor in world economic activity. With the economic downturn this figure declined in 2001, mainly due to a reduction in cross-border mergers and acquisitions, but the volume of FDI world-wide remains substantial. The challenge for many countries and especially transition economies is to capture a share of this investment in an increasingly competitive environment and to maximise the benefits from FDI. The strategic guidelines for investment promotion were developed by the OECD and the South East Europe Regional Roundtable on Investment Promotion to help transition and developing economies address this issue.



The bulk of FDI continues to go to major developed countries, and transition economies face substantial competition as mobile investment searches for business advantage and competitive business locations. Countries now compete not just with neighbouring countries for investment but with many potential investment destinations world-wide. They must compete for expansion of existing investment and for retaining investment by maintaining a conducive environment for investors. The impact of a wider global spread of investment and structural reorganisation within industries, driven by technology and business competition, demand focused and competitive approaches to attracting and retaining FDI. The world environment for attracting investment presents challenges and new opportunities – fundamental to addressing these will be the competitive strategy adopted by countries and investment promotion agencies.

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2. Objectives and Focus of the Strategic Guidelines

The document presents a framework of successful practice in strategy, based on extensive country experience and research, for use by governments in the promotion of foreign direct investment and a benchmark against which individual countries can assess their existing or planned FDI promotion strategies. Successful strategic practice as described here represents the policies, strategies, institutional structures and marketing activities that many OECD Member countries and transition countries have employed with proven success. The document does not provide a detailed prescription or step-by-step guide on operational practices (this is a well documented area – see bibliography) but the core principles and strategic policies that many countries have demonstrated to be most effective in attracting investment. While there are common features, it is important to emphasise that each successful country has applied its own innovative approach, and equally important, continues to seek new directions in competitive strategy that will respond dynamically to a highly competitive and changing environment.

The guidelines focus primarily on attracting mobile investment in the form of “greenfield” or joint venture projects. Mobile investment is the term used to describe foreign direct investment (FDI) in manufacturing and services, which may locate in any one of numerous countries and for which countries world-wide compete between each other to attract. While the practices outlined refer mainly to greenfield investment, they can encompass joint venture or privatisation projects where various investment destinations are being considered for such investment.

The guidelines have been prepared in partnership with the SEE Regional Roundtable on Investment Promotion in response to requests from the countries of the region for assistance in strengthening their capacity to attract foreign investment (see sections 7 and 8). They provide a standard against which transition economies can examine and compare their current performance and refine the policies and strategies to improve performance. The twelve specific guidelines presented here provide an overall “successful practice” strategic framework for investment promotion.

3. The Central Role of Government and Investment Promotion Agencies

The importance of government providing the political leadership in introducing competitive policies is paramount and this theme runs through the guidelines. Government leadership and commitment to achieve progress is fundamental to success. This demands recognition of the competitive environment for investment and the need to tackle a broad policy agenda and build constructive relationships with the private sector. Government must first decide on the role of foreign investment in the overall development of the national economy. Setting this vision – and communicating it widely – can be an important determinant of success. The attraction of foreign investment requires the mobilisation of different interest groups across government and society. Attracting mobile foreign investment is becoming ever more competitive as more and more countries move towards market-oriented economies and recognise the benefits from FDI.

Having decided the overall foreign investment objectives, government must put in place the operational means of achieving them. The responsible organisation must not be another layer of bureaucracy that investors have to overcome but a real facilitator in providing good factual material and advisory services. Ideally it should have the international business and marketing skills to interface effectively with foreign investors as business partners. As the government agency most in touch with the foreign investor, the IPA is well placed to be the main source of feedback to government policy-makers.

The major benefits from FDI are direct employment and economic contribution to the national and local economies. Successful integration in the local economy and the transfer of management, marketing and technological skills are added benefits, which help to establish FDI in a country and to spin off new investment. FDI can potentially act as a key driver of indigenous enterprise development by improving quality and service standards; by establishing links with technical research institutions; by developing suppliers of goods and services; and by constructively influencing education and skills training policies on a national level. All of these benefits do not automatically accrue with all investments. They require the strategic policies and promotion that foster and encourage them so that mutual interests are served.

Linking foreign investment to the local economy should therefore be a vital part of the strategic approach by policy-makers in their search for better and more competitive strategies. Policy measures are required to encourage foreign investors to act in this way, in their own interest as well as that of the host economy. This requires effective co-operation between the ministries and agencies involved as well as regular communication with the private sector.

4. Drawing on Experience

The strategic guidelines were derived from wide sources of practical experience and expertise:

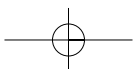
- (a) The OECD has drawn on the extensive experience of its Member countries and its work with transition countries over the years in developing these guidelines. Contributions and examples from individual countries help to illustrate specific points in the guidelines. Many of the examples cited are based on the experiences of smaller countries of similar size, historical experience and peripheral location as the transition economies in South East Europe.
- (b) The guidelines also draw on the **Istanbul Programme for Investment Promotion, 2001 – 2010** (see Appendix 1) in which the membership of the Investment Promotion Network of 18 transition economies has developed a ten-year programme of specific action points to promote FDI and maximise its benefits to local economies.
- (c) The guidelines take into account the work of the OECD in the area of foreign investment policy and promotion (see Appendix 2). References include: *OECD Guidelines for Multinational Enterprises*; *The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*; *OECD Codes of Liberalisation of Capital Movements and Current Invisible Operations*; *OECD Principles of Corporate Governance*; and *The Investment Environment in the Russian Federation: Laws, Policies and Institutions*.
- (d) An extensive review of academic and operational literature and research has been conducted to ensure that the guidelines reflect up-to-date thinking and experience.
- (e) MIGA/World Bank has published the *Investment Promotion Toolkit* (see Exhibit 24) as a step-by-step aid to transition governments in setting up and running an IPA. This toolkit is particularly relevant to the issues raised in the guidelines on attracting foreign investment.
- (f) FIAS advises governments on improving the investment climate and attracting foreign investment, and has completed studies of administrative barriers to investment in most of the transition economies of Europe and Central Asia. These studies form the basis of legal and institutional reforms to reduce the impediments to foreign investment.
- (g) The published work of UNIDO, UNCTAD and WAIPA has also been consulted to provide global references, particularly on the operations of IPAs.
- (h) Within the **Investment Compact of the Stability Pact**, the OECD and the eight countries of South East Europe established a **Regional Roundtable on Investment Promotion**. The Roundtable consists of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Moldova, Federal Republic of Yugoslavia: Serbia, Montenegro, as well as other countries and organisations interested in the economic development of the region. The OECD and the Roundtable (of which the Steering Group currently consists of Albania, Bulgaria, Croatia and Romania) worked together to develop the guidelines.

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5. Summary of Strategic Guidelines on Investment Promotion

- (1) Establish government policy on foreign direct investment and the vision for its role and contribution to the national economic development framework.
- (2) Articulate and advocate national policy on FDI among social partners and civil society as well as investors in order to create a better awareness and consensus on the aims of policy.
- (3) Establish an Investment Promotion Agency (IPA) and determine the objectives and the legislative and governance structures of the agency.
- (4) Inculcate within the IPA a professional management and service culture, result-oriented ethos and innovative marketing approach in order to compete successfully in attracting new investment and to ensure satisfactory continuity of the organisation culture.
- (5) Define strategic policy options and set out the corporate strategy and marketing plan for the IPA to build competitive strength and achieve selected policy options.
- (6) Decide on incentives policy and ensure objective and regular evaluation of costs and benefits.
- (7) Undertake a comprehensive review of skills available versus skills required by investors. Develop and implement policies to address identified gaps and thereby facilitate new investment, jobs and skills.
- (8) Ensure the provision of essential infrastructure needed by industry – industrial estates, modern factory and office buildings, utilities (electricity, gas, water), effluent treatment, drainage, telecommunications (including access to broadband networks) and different modes of transport.
- (9) Identify administrative barriers to FDI and establish a programme with clearly assigned responsibilities and target dates to remove such obstacles to investment.
- (10) Promote FDI by undertaking a comprehensive and professional marketing programme aimed at new and existing investors and by building the IPA as a credible and competent partner for investors.
- (11) Facilitate investment and service new and existing investors at all stages of the investment cycle, from start-up through to post-investment and new expansion stages.
- (12) Encourage greater integration of foreign business into the economy and the establishment of foreign investment in the country.

II. THE CHALLENGE FOR SOUTH EAST EUROPE



6. Progress with Foreign Direct Investment in South East Europe

South East Europe has made significant progress towards macroeconomic stabilisation in recent years and has achieved increasing rates of economic growth. The investment climate has improved as peace and stability have spread across the region. FDI has gradually increased, driven mainly by large privatisation investments in telecommunications, banking and heavy industry, and there is emerging interest by international investors. OECD Member countries are the main source of FDI in SEE. Investment flows from the OECD area, for example, account for over 90% of FDI in Bulgaria, Croatia and Romania, the three main destinations in the region for international investment. European Union countries traditionally account for 80% of all FDI flows from the OECD area to the region. Austria, Germany, Greece and Italy, the main SEE trading partners, also head the league of FDI investors and underpin the closer integration of the region with the European Union. Foreign investors are increasingly looking at the region as a competitive supply base for the EU and other adjacent markets.

The region still suffers from a negative image in the minds of potential investors due to recent political conflict and disruption, but this is gradually changing as policy reform and promotion activity advance. The performance of SEE countries in attracting "greenfield" investment is relatively weak, and this is especially significant for the transition process. Notwithstanding policy reform in many areas, there remains in much of the region an environment of bureaucratic laws and procedures that compares unfavourably with that of competing regions for investment. All of these factors make the task of attracting greenfield investment more difficult. Greenfield investment in manufacturing and services typically creates new employment, directly and indirectly, while privatisation may lead in the first restructuring phase to loss of employment. In addition, greenfield investment often introduces new export-oriented sectors, is potentially open to greater regional spread, and speeds up the modernisation and readjustment of the industrial structure. The continuation of privatisation in SEE countries will generate new investment, but the region needs to compete more strongly for mobile greenfield investment.

While the stock of foreign investment in the region rose from \$1 billion to \$16 billion through the 1990s, it is clear that the region continues to lag seriously behind other regions in its performance and capacity to increase investment. The gap between the SEE region and other similar regions, such as Central and Eastern Europe, in terms of total stock of FDI and annual increase remains large.

Exhibit 2 provides an indication of foreign direct investment in the countries of South East Europe (SEE) between 1992 and 2001 (seven SEE countries, Moldova excluded).

Exhibit 2: Capital Flows: Foreign Direct Investment in South East Europe, 1992-2001 (in million US\$)

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Albania	20	45	65	89	97	42	45	51	141	207
Bosnia & Herzegovina	n/a	n/a	0	0	0	0	100	90	150	164
Bulgaria	41	40	105	82	81	503	537	836	1000	500
Croatia	13	102	110	109	486	347	835	1445	827	470
FYR Macedonia	0	0	24	12	12	18	175	27	169	350
Romania	73	87	341	417	415	1267	2079	1025	1009	900
FR Yugoslavia	n/a	n/a	n/a	n/a	0	740	113	112	25	200

Source: EBRD database

The differing performance between South East Europe and other regions on FDI stocks accumulated over the last decade is very significant, for example, if compared with the transition economies of Central and Eastern Europe (CEE). The entire FDI stock of the eight SEE countries is well below the FDI stock of Hungary, for example, a country with one-fifth of the population of South East Europe. Data on FDI stock per capita

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Exhibit 3: Foreign Direct Investment (FDI) Indicators – South East Europe compared to Hungary

FDI Indicator Hungary	Albania	Bulgaria	Bosnia & Herzegovina	Croatia	FYR Macedonia	Moldova	Romania	FR Yugoslavia	
FDI Stock 1989-2000 US\$ million	595	340	3,286	4,274	437	438	6,732	990	19,725
FDI Inflow 2000 US\$ million	141	150	1,002	827	169	100	1,009	25	1,314
Cumulative FDI per capita 2000 US\$	174	79	404	938	219	102	301	116	1,964
FDI Inflow as % of GDP 2000	3.8	3.5	8.3	4.3	5.0	7.1	2.7	0.3	2.6

Source: EBRD, EBRD Transition Report 2001

confirm this diverging picture, Croatia being the only SEE country recording a level comparable with CEE (see Exhibit 3).

Enhancing regional capacities to improve FDI levels and maximise the opportunities from existing investment is therefore vital to lasting transition and future economic growth. This scenario prompted the Investment Compact to instigate greater regional collaboration in tackling this issue while recognising the needs of individual countries to enhance their own investment policies and promotion. Incremental drive and activity is urgently needed across the region to address this situation. The South East Europe Regional Roundtable on Investment Promotion (see section 7) was established to assist that process.

7. The South East Europe Regional Roundtable on Investment Promotion

The South East Europe Regional Roundtable on Investment Promotion is a partnership of all SEE countries working together to create a new image of the region as an investment location and to improve each country's investment policy and promotion strategies. Set up in July 2000 as a regional flagship initiative of the Investment Compact, the Regional Roundtable identified two key obstacles to foreign direct investment in the region: **image** and **capacity**. The outside image of the region as an investment location over the past decade has been negative, and most SEE countries have an inadequate framework of laws, institutions, skills and resources compared to "competitive successful practice" in other countries. The Regional Roundtable seeks to improve this image and strengthen the investment policy and institutional framework, including IPA capacities in the region.

Members of the Roundtable include IPAs, ministries of SEE governments, OECD Member countries, international organisations and financial institutions, private firms, and business and trade organisations. A Steering Group with rotating membership (Albania, Bulgaria, Croatia and Romania in 2002) ensures regional ownership, while the OECD acts as co-ordinator and facilitator, maintaining the network of support and expertise of Investment Compact partners. The Roundtable meets formally two or three times a year (informal meetings also facilitate communication) to select and plan the implementation of specific projects focused on image-building and capacity-building.

A major challenge for the Roundtable is to counteract and change negative perceptions of South East Europe and *build a positive image of the region as an attractive and profitable investment location*. It therefore takes practical steps and participates in activities, which are incremental to measures taken at national level by SEE countries, to counteract negative perceptions and build a more positive image of the region. Regional promotional tools, for example, include regional investment guides (organised by the Bulgarian Economic Forum with support from GTZ, Germany) and regional promotion brochures, profiles of regional success stories and business opportunities, major business forums such as the SEE Economic Forum, and media events. The Roundtable networks extensive support from Investment Compact partners, including private sector groups in undertaking its activities.

The Roundtable also works to build up the *capacities of investment promotion agencies* and relevant ministries so that they are able to join the global competition for foreign direct investment. The Roundtable benefits substantially in its work from the partnership and expert guidance of MIGA, FIAS, EBRD, UNIDO and UNCTAD, from foreign investor advisory councils in the region, as well as from the Business Advisory Council of the Stability Pact (BAC), the Business and Industry Advisory Committee to the OECD (BIAC) and other civil society organisations.

Actions here again are incremental to the ongoing promotional work of individual SEE countries and seek to promote more intensively the wider SEE region for investment. They include, for example, private sector missions of OECD Member country businessmen to the SEE region, joint missions by Roundtable members to present region-wide business opportunities and to conduct investment seminars in other countries (e.g. Austria, Greece, Italy, Japan, Switzerland and Turkey), and introduction to “successful practice” policies and methods through workshops, seminars and training.

8. Identifying the Challenges and Issues

The members of the South East Europe Regional Roundtable on Investment Promotion have welcomed the process of developing the guidelines and the potential contribution of the guidelines to the development of FDI in the region. In preparatory work for the strategic guidelines the various countries identified important issues and key environmental factors that affect the environment for attracting new investment, which are described briefly below.

While recognising the advantages of working jointly to promote the region, all participants stressed the need to take full account of national and local circumstances. The region is not homogeneous in terms of culture, recent history or stage of development. The guidelines can therefore only be applied on a country-by-country basis.

In most parts of the region there are still significant challenges in building more competitive and progressive strategies to promote private investment, and these issues need to be carefully considered in developing new strategies and programmes. The popular attitude towards FDI in many SEE countries can frequently be negative, influenced by culture, education and the often drastic cutbacks which followed previous privatisations. As the first wave of FDI has been largely through privatisation, it is not surprising that people who see the resulting rationalisation of industry do not have a wholly positive view of new investment. At times this negative attitude may take the form of scepticism about FDI and private enterprise in general. On occasion, according to regional participants, there may even be a need to convince both the government and society of the benefits of FDI and the merits of a comprehensive and strategic policy approach. Governments need to adopt a strong advocacy role if success is to be achieved, so clearly any undecided or ambivalent approach to FDI will weaken the competitive position of a country in attracting investment. There is also a need for stability and continuity of both FDI policy and the IPA as an institution despite any changes in government. In the past, new agencies were established, achieved good progress in a short period, but then were dissolved or reorganised in such a way that their role and potential contribution was diminished or completely lost. Better continuity of efficient policies and institutional structures will yield better results in promoting investment.

With regard to institutional structures in the region to promote investment, some broad conclusions and recommendations have emerged from Roundtable dialogue and guidance:

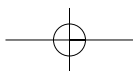
- (a) In general, regional IPAs in South East Europe are not competitive in global terms due to the lack of resources and skills. Putting this right will take a lot of time but is worth the effort, as evidence to date demonstrates that FDI is finding its way into the region, even without significant support. Individual countries have made significant advances in improving their policies and structures, but there needs to be a paradigm shift in the overall approach if substantial progress is to be made.
- (b) IPAs should report at the highest political level (prime minister level was suggested) or at least have their mandate endorsed at high government level. This political support will give them the necessary status and credibility with both investors and other government ministries and agencies.

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- (c) IPAs should instigate government policy reform with regard to the overall vision and strategy for the promotion of FDI where necessary and in general should act as champions of FDI.
- (d) IPAs should act as the medium for ensuring that the government hears the views of foreign investors. In some countries there are strong investor representative groups, and facilitating the access of such groups to government policy-makers or encouraging new investor groups are actions that IPAs could usefully undertake.
- (e) IPAs should set up a “one-stop shop” to deal with all of the needs of the incoming investor. This action, a feature of successful practice in some countries, requires political commitment and support.
- (f) IPAs need to work closely with local authorities and with other development agencies in maximising the benefits of FDI. The benefits of FDI do not flow automatically once the investment decision has been made in favour of a location. IPAs need to establish close links with investors and increase their contacts with existing industry and other groups.
- (g) More “case experiences” of investors should be published to promote better awareness of the investment climate in the region. The successful experiences of many investors in SEE have not been adequately publicised. The best promotional message for potential investors is the successful experience of existing investors
- (h) More partnerships with the private sector and civil society organisations are needed to obtain government support for the implementation of reform.

The Strategic Guidelines outlined on the following pages were developed from successful practice in tackling such issues in OECD Member and non-Member countries and in direct response to identified issues and needs in the SEE region. They set out a constructive framework for building better investment strategies, policy dialogue and implementation, which will be monitored as part of the Investment Compact process. The formal and informal meetings of the SEE Regional Roundtable provide a forum for region-wide dialogue, exchange of experience and peer review on implementation in South East Europe.

III. STRATEGIC GUIDELINES ON INVESTMENT PROMOTION



Strategic Guideline 1:**Establish government policy on foreign direct investment and the vision for its role and contribution to the national economic development framework**

- 1.1 Establish and widely publicise the broad vision and aims of FDI policy in terms of national economic and social development.**
- 1.2 Introduce and enact legislation, where necessary, on FDI policy, treatment of FDI, new institutions and other policy areas that impact on FDI.**
- 1.3 Ensure consistency of other government policies (e.g. legal and administrative procedures, labour regulations) with agreed FDI policy so that efforts to attract FDI are not undermined or obstructed by conflicting laws and regulations.**
- 1.4 Involve foreign investors in policy dialogue at all stages in the development of new policies.**
- 1.5 Ensure that foreign investment policy has a regional dimension, i.e. that appropriate steps are taken to ensure that as many regions as possible benefit from FDI (e.g. infrastructure and skills training/development).**
- 1.6 Periodically assess the economic impact of FDI and instigate policy change, where necessary, to improve performance or deal with a changing environment.**

The government should first decide on the aims and role of foreign investment in the overall development of the national economy. Successful practice builds on the vision and the presentation of this vision to society. This action needs to be underpinned with legislation and institutional structures to give proper effect to policy. The attraction of foreign investment requires the mobilisation of different interest groups across government and society (for example, central and local governments, unions and labour, employer representatives, civil society organisations). Unless government as a whole is convinced of and committed to an FDI policy, it is unlikely to maximise the opportunities for FDI or succeed with such policies in the longer term.

Continuity and predictability of overall economic policy are important to maintain foreign investor confidence. Predictability demonstrates political and economic stability, which is a fundamental issue for all investors and especially with regard to large-scale long-term investments. Continuity of FDI policy is similarly very important to investors. This is a primary task for government – it does not imply the absence of any change in policy but rather that progressive change is managed and co-ordinated with other policies and involves effective communication with social partners, including investors. Hence the government should try to secure the understanding and support of wider society for the stated objectives and role of FDI in the economy, and thereby gradually remove fundamental objections to such broad policies as issues in adversarial political debate.

The government should ideally have a clear vision of the actual and expected benefits of FDI (capital investment, increased tax revenues, exports and foreign exchange earnings, employment and skills, regional development, technology, etc.) and the role of FDI in the overall economic development strategy, including its contribution to balanced regional development. Periodic evaluation of FDI policy is key to long-term success in attracting FDI and maximising benefits from investment.

Strategic Investment Promotion: Successful Practice in Building Competitive Strategies

Exhibit 4: **Creating the Policy Framework and Environment for Increased FDI**

“It is increasingly recognised that, within the right policy setting, foreign direct investment (FDI) is a powerful engine for sustainable growth and integration of nations at different levels of development into the world economy. Governments in all continents now actively seek FDI, and the international community has intensified efforts to assist less developed countries in this process. Hence, as we enter into the 21st century, and despite the overall decline in FDI flows in 2001, opportunities for reaping the full benefits of inward direct investment and achieving a better world for all remain high in the long run. Today FDI is needed more than ever to achieve sustainable development and poverty reduction.

At the same time, this observation poses new challenges. Host and home governments need to move beyond the traditional policy of liberalising FDI. They must embrace a broader set of policies for an enabling environment for investment: respect for workers and environmental rights, competition, taxation, financial markets, trade, corporate governance, public administration, and other public policy goals. Building the capacity to formulate and implement these policies has become an equally pressing challenge. Developing policy frameworks to ensure that multinational enterprises contribute to development goals and capacity building also remains a priority issue on the international agenda.”

Mr. Donald J. Johnston, Secretary-General of the OECD,
New Horizons for Foreign Direct Investment, OECD, 2002

Exhibit 5: **Attracting Investment to South East Europe: Need for Policy Framework**

“Private sector development and especially FDI is essential for sustainable economic development in South East Europe. While the region is improving as an investment destination (FDI flows of approx. Euro 3 billion in 2001 according to a recent EBRD report), compared with Central and Eastern Europe, the countries of SEE have been less successful in attracting FDI. The projected FDI flow to SEE for 2002 is virtually unchanged from that of 2001.

It is clear that significant reform challenges remain. It is important to improve the overall investment climate and particular attention should be given to clear regulations, a level playing field, good governance and the application of the rule of law. There is an ongoing need for institutional reform at all levels. At the same time, I believe it is important that investment opportunities in the region be promoted on an ongoing basis, as the active participation of potential investors in the region will expedite reforms. Only by doing so will we finally see the mobilisation of much needed greenfield investment, complementing investment secured mainly through privatisation.

The Stability Pact views the Investment Compact as a valuable tool which, if used properly, will increase the level of FDI in the region and thereby provide visible results for the citizens of these transition economies. The Investment Compact brings together a potent combination of resources, experience and expertise which the countries of SEE can avail of to assist with the implementation of much needed reforms and promote investment opportunities to key target markets.

To conclude – the instruments are available, essential international support and expertise has been mobilised but, as is so often the case, the best help is self-help and it is up to the governments of SEE to maximise the benefits offered by the Investment Compact.”

Dr Erhard Busek
Special Co-ordinator of Stability Pact for South Eastern Europe
July 2002

Strategic Guideline 2:

Articulate and advocate national policy on FDI among social partners and civil society as well as investors in order to create a better awareness and consensus on the aims of policy

- 2.1 Undertake wide communication and publicity on planned FDI policy and expected results as well as on the methodology to monitor and review performance.**
- 2.2 Take a proactive role in communicating with civil society and with domestic and international media in order to explain FDI policy and government support for it.**
- 2.3 Ensure that new FDI projects are properly announced and publicised (this is a key part of the work of an Investment Promotion Agency and requires close partnership between government and IPA to achieve best results).**
- 2.4 Actively and publicly participate in supporting the work of the IPA – this is a key task for government.**
- 2.5 Ensure that local industry or regional partners are fully aware of the opportunities for business links and co-operation with foreign investors.**
- 2.6 Consult with social partners and foreign investor representative groups in reviewing, amending or introducing new FDI policies to improve performance.**
- 2.7 Ensure that the conduct of performance reviews allows for inputs from all relevant groups in society and that such reviews are made available to the wider public.**

Having established the vision for FDI policy within the overall economic development and the competitiveness strategy for the country, it is important that governments play a proactive role in articulating that policy and promulgating it to all social partners as well as to investors. This task should not be underestimated or left to the IPA alone – it requires the active, continuing and committed support of the government to achieve public understanding and support for the IPA.

World-wide competition for FDI has increased significantly in recent years, and the national plan to meet such competition and achieve higher levels of international investment needs to be well presented and explained. It is equally important that governments avoid mixed messages about the merits and desirability of attracting FDI, as this may detract from the image of the country as an attractive investment location and send negative signals to potential investors. A key feature of many countries in attracting FDI is their highly professional approach to announcing new FDI projects and explaining the expected results from such investment. It also demands effective management of communication later on, as inevitably some projects may not meet expectations. The full benefits of FDI are further enhanced when local groups and especially local industry, including component and service sub-suppliers, are well informed about new investment. This needs to be done in close co-operation with new investors.

The process of reviewing performance should be inclusive and objective. The active involvement of investors in that process and in the dialogue on needed policy changes will lead to better policy development and implementation.

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Exhibit 6: *Chile and its Strategy for a New Century*

“As distance becomes a relative concept, investors are looking more at the merits of potential projects, rather than their geographical proximity. For Chile, that means both new opportunities and new challenges.

Becoming ‘a global country’ is not just a temporary phenomenon caused by an economic cycle. It is for us a strategic project that will determine Chile’s capacity for long-term growth. Smaller economies like Chile, located far away from the large international centres, must integrate into and compete on the international market if they are to develop. And that means increasing the competitiveness of our country, of its government, its business sector and the rest of society.

Chile’s economic policies are geared to this goal, as are our efforts to improve education, training and infrastructure. Initiatives in e-commerce and e-government and programs to improve the performance of our civil servants also point in this direction...

Today, international competitiveness requires the joint efforts of all sectors of society to release a country’s maximum potential. By promoting social cohesion, that is what we are achieving...

We have developed an economy with a strong international foundation and investors from different parts of the world have come to Chile, attracted by the guarantees of safety for their investments and the quality of life that the country has to offer. Chile provides major opportunities in infrastructure, public utilities, and telecommunications and in the expansion of digital services, agribusiness and tourism, as well as in more traditional sectors.”

Mr. Ricardo Lagos, President of Chile

“Chile is widely recognised for its success in attracting Foreign Direct Investment (FDI). Between 1974 and 2001, materialised foreign investment totalled US\$ 57.9 billion. Of this amount, almost 90% entered the country after 1990. During the 1990s, FDI represented an annual average of 6.3% of Chile’s GDP, rising to 8.2% between 1996 and 2001.

Aware of the host of opportunities the country has to offer, multinational companies have been steadily making a way into different sectors of the Chilean economy, either by developing new projects in Chile or through mergers and acquisitions. Today, more than four thousand companies from 64 countries have investments in the country...

The government understands that its role is to provide an appropriate environment for private initiative within a context of political and economic freedom, strong institutions, fiscal discipline, a regulatory framework that promotes transparency and competition, as well as through an increasing network of international trade agreements...

The combination of FDI, along with Chilean entrepreneurship and the country’s human capital, has proved a powerful team for generating new wealth.”

Ms. Karen Poniachik, Executive Vice-President
Foreign Investment Committee, Chile
Source: *Chile, Your Best Bet*, Foreign Investment
Committee, Chile, April 2002

Strategic Guideline 3:**Establish an Investment Promotion Agency (IPA) and determine the objectives and the legislative and governance structures of the agency**

- 3.1 Establish an Investment Promotion Agency (IPA) with a clear legal structure and powers to carry out its mandate.**
- 3.2 Ensure that the mandate of the agency is clear, transparent and modifiable only by government decision. To be effective, the agency needs to be empowered and resourced so that it can compete internationally for investment.**
- 3.3 Appoint a senior cabinet economics minister (or the prime minister) to be directly responsible for the activities and performance of the IPA.**
- 3.4 Provide sufficient resources and budget to meet the objectives.**
- 3.5 Decide on the role, authority, responsibilities, appointment procedures, budgeting process and reporting of the IPA supervisory board, chairman and chief executive.**
- 3.6 Appoint the supervisory board, including significant private sector and key stakeholder representation, and the chief executive.**
- 3.7 Appoint an independent chairman as the key communications channel between the supervisory board and the responsible minister.**
- 3.8 Clearly state the responsibilities, powers, budgetary and reporting procedures of the agency, the limits on capital and operating expenditure, and appropriate auditing procedures.**
- 3.9 Set clear targets and measurement of outputs and programme performance to meet government objectives and budget allocations.**

Successful practice points to the need to establish institutional structures which can be effective and competitive. This is the primary reason why many countries have established dedicated IPAs and endeavoured to ensure that such institutions have the capacity and resources to deliver results. By having an institution that is non-political and non-governmental, these countries have achieved better stability and continuity in the institutional structure and programmes (less affected by periodic changes in government and less restricted by formal procedures that apply within ministries). It is not uncommon for countries to move through stages in establishing an IPA – initially having a dedicated unit within a ministry and gradually moving to a more independent organisation which can develop long-term strategies and service cultures that improve innovative practice and competitiveness.

Economic development, including promotion of foreign investment, is a long-term process. The IPA has to be organised and run professionally if it is to perform effectively and efficiently in the highly competitive world of attracting mobile investment, while at the same time maintaining responsibility for expenditure of public funds on operations or incentives. The institutional framework should ideally be protected from short-term political pressures that affect the efficiency of its operations.

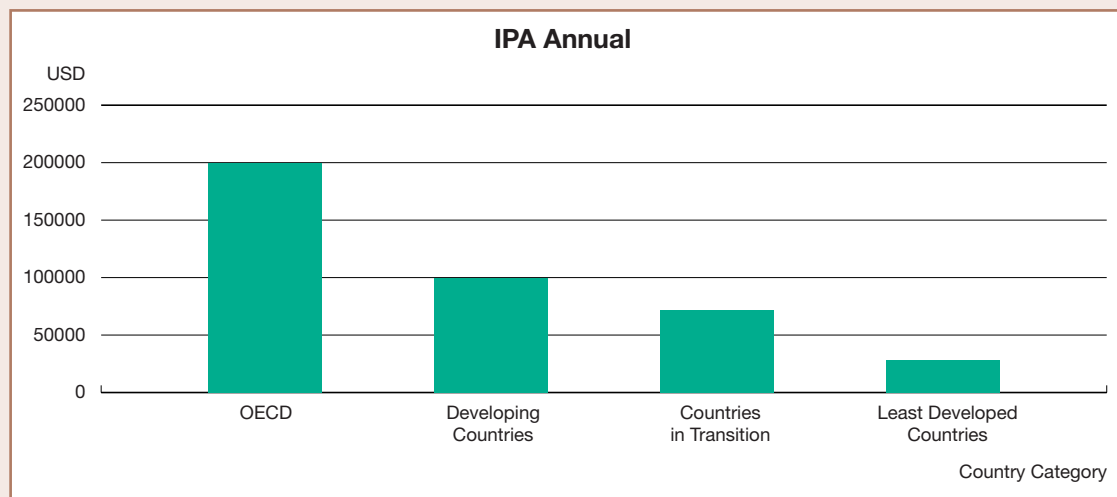
Setting up and operating a modern investment promotion agency, with a head office and overseas and regional offices, are expensive tasks in terms of facilities and staff. Most developed economies and many transition economies have set the standard in terms of the resources and activities required to be successful.

Strategic Investment Promotion: Successful Practice in Building Competitive Strategies

One method, which has proved effective in a number of countries, is to maintain full public control and accountability in the responsible minister's hands, while ensuring day-to-day operational independence by creating a board structure with strong representation of the private sector by senior business people who are free of conflict of interest and who contribute their time for a nominal fee. Some of the most successful IPAs have a majority of private sector representatives on their boards. This also ensures expert insights into industry sectors and trends. Clear lines of authority and reporting to the minister on performance and budget ensure consistency with government policy and with strong financial controls in an entrepreneurial organisation. These policy issues and structures, and how they are decided, can determine the level of success or failure of the IPA.

A world-wide survey of 101 IPAs, carried out by the World Association of Investment Promotion Agencies (WAIPA), outlines how most IPAs are organised, staffed and funded.

Exhibit 7: **Survey of 101 IPAs – WAIPA/UNCTAD**



Source: UNCTAD-WAIPA, *Best Practice in Investment Promotion Survey Results*

See www.waipa.org

Organisational Characteristics of IPAs World-wide

More than 50% of Investment Promotion Agencies in Central and East Europe and Central Asia have now been established for more than ten years. The majority of these agencies are government-run (Ministry of Economy) with the government also providing approximately 73% of all funding. On average an IPA's budget is in the region of US\$ 1.1 million per annum. However, it is also clear that IPAs in transition countries lag significantly behind this figure. IPAs are staffed, on average, by 20 professional personnel and 9 support personnel. However, the experience base of this staff differs significantly: in OECD Member countries 50% of the professional staff have private sector experience (over one-third of this expertise base is in economics), whereas in Least Developed Countries this figure drops significantly to only 15%. Although fairly new on the scene, IPAs in lesser-developed countries are relatively well developed and competitive.

Strategic Guideline 4:

Inculcate within the IPA a professional management and service culture, result-oriented ethos and innovative marketing approach in order to compete successfully in attracting new investment and to ensure satisfactory continuity of the organisation culture

- 4.1 Appoint a high calibre chief executive who has the vision, experience and management skills to build and lead a successful organisation.**
- 4.2 Implement professional recruitment procedures to ensure that all management and staff are appointed based on industry experience, skills and personal qualities.**
- 4.3 Ensure that conditions of employment within the organisation, insofar as possible, match those of industry and thereby facilitate quality recruitment and retention of experienced staff.**
- 4.4 Ensure that staff are provided with continuous training and skills development (e.g. business strategies, marketing techniques, sectoral knowledge, presentation skills, client servicing, project evaluation).**
- 4.5 Follow best corporate and management practices in developing the strategic and operational plans for the IPA.**

Implementing the empowering legislation and establishing an IPA will not in themselves ensure a successful FDI programme. The IPA itself must be a professionally run organisation staffed by people who understand the mentality and business strategies of foreign investors and are prepared to go the extra distance in terms of helping investors to become established and run their businesses.

Countries can create a competitive advantage by ensuring that their agencies are better than those of competitors. The professionalism and dedication to client service of IPAs in, for example, Singapore, Costa Rica and Ireland have been major factors in the success of FDI policy and promotion programmes in those countries.

The key to establishing a culture of direct relationships with potential investors and making things happen lies in the first instance in the selection of the governing board structure and the chief executive of the IPA. The board and chief executive will set the tone and direction for shaping the culture of the new organisation. Very careful selection of board appointees and of the chief executive is clearly essential.

The most successful IPAs today act like top class service companies and often apply similar service systems and quality methods. Their approach is highly professional and efficient. They serve as *development* agencies, proactively seeking to not just undertake promotion but to provide business solutions to potential investors and to improve the wider environment for investors by liaising with relevant government and other bodies concerning changes needed. They are innovative in seeking investment in new and emerging sectors. They have the mandate and resources to undertake their work and are perceived as central to national development policy.

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Exhibit 8: **Setting up the IPA – A view from Estonia**

“There are a few things which are crucially important for a successful IPA.

- The organisation must be separate from the ordinary bureaucracy. Ideally it should be a semi-governmental organisation with its own budget of at least \$500,000 per annum.
- It would be good to have a supervisory council for the organisation consisting of influential representatives from the investor community (minimum 50%) combined with high-ranking officials. The council must be strongly motivated by patriotism to do its job and there must be no conflicts of interest.
- The management team should not be political as it then tends to change all the time and the agency may lose necessary stability and continuity in its development.
- The real success depends on people who work with investors. It is crucially important to have the means for getting good professionals and also motivating them. Better salaries than in the public sector should be offered, but staff must have a strong motivation to do something good for their home country. This is very effective in the highly competitive FDI market.”

Mr. Agu Rimmelg, former chief executive, Estonian Investment Agency
See background on Estonia’s FDI promotion: www.eia.ee

Exhibit 9: **Elements of Best Practice in IPAs**

“Key elements of the best practice work of IPAs typically include:

- (a) Having a good service management system which aims its activity at priority market segments/sectors, spells out the service offered and is clear on the delivery method;
- (b) Using customised marketing to target clients and build relationships with them;
- (c) Pursuing FDI in all elements of the value chain and in all business functions (e.g. design, purchasing, production, distribution, marketing, customer aftercare and service, research and development);
- (d) Rooting FDI in the host country through good linkage with local suppliers, subcontractors, business partners, technical institutes and universities, etc. and through good facilitation in the post-investment phase.”

Source: OECD, Report: ‘Investment Promotion Techniques and the Role of Investment Promotion Agencies’, Workshop on Foreign Direct Investment Policy and Promotion in Latin America, Lima, 15-17 December 1998

Strategic Guideline 5:

Define strategic policy options and set out the corporate strategy and marketing plan for the IPA to build competitive strength and achieve selected policy options

- 5.1 Identify the positive and negative factors that differentiate the country from regional and global competitor countries and develop strategic policies and actions to address these factors with investors.**
- 5.2 Clarify the awareness and image of the country in the minds of potential investors. This is an important first step to successful promotion of investment. It is a topic that needs to be examined and continuously reviewed.**
- 5.3 Select priority industrial and service sectors where the country already has or can develop competitive advantage, keeping in mind the potential in new emerging technologies and arising from structural change in industry sectors.**
- 5.4 Undertake research on selected sectors so that strategic issues affecting business and investment are understood and acted on by the IPA in links with investors.**
- 5.5 Encourage action by the government, where necessary, to enhance the competitive advantages for attracting investment (e.g. special skills training or provision of specific infrastructure).**
- 5.6 Develop corporate strategies and operating plans to focus on selected options.**

The globalisation of business and growth of the knowledge economy have introduced new dimensions into investment decisions for both countries and companies. New and changing sectors (e.g. information and computer technology, biotechnology, media services and financial services) have opened new opportunities and challenges in attracting investment. Many small and medium-sized companies are international investors, and this trend is increasing. A key issue therefore is to recognise that not all FDI is the same. The IPA needs to carefully and realistically select strategic policy options based on the potential of certain sectors but also on a clear understanding of how FDI decisions are made. The IPA needs to understand what investors are seeking, their view of the country as an investment location, the needs of their particular sector and company, the country's competitive advantages for attraction of FDI and how it compares with other countries. This should form the basis of the strategy.

Typically, the investor motivation for FDI is to acquire:

- (a) Better access to markets – nationally, regionally and globally;
- (b) Competitive labour costs and productivity as well as skills availability;
- (c) Access to raw materials at competitive cost;
- (d) Acceptable risk, linked to a supportive policy environment and with essential infrastructure (utilities, telecommunications and transport).

Addressing investor motivations (see Exhibit 10) is a central element of the strategic approach of successful IPAs. Similarly, establishing an objective view on the competitiveness of the country is a key part of the strategy for many countries and IPAs. Showing that the business environment rates well compared to other locations may be one of the most powerful messages to send to investors.

Strategic Investment Promotion: Successful Practice in Building Competitive Strategies

Exhibit 10: **Foreign Direct Investment Survey by MIGA and Deloitte & Touche LLP**

Most Important Objective when Investing outside Home Country (percentage)

Improved market access	55	Reduce operating costs	17
Other factors	8	Source raw materials	6
Consolidate operations	4	Develop new product lines	4
Improved productivity	2	Develop new technologies	2
Improved labour force access	1	Reduce risk	1

Source: *Foreign Direct Investment Survey*, a study conducted by the Multilateral Investment Guarantee Agency (MIGA) with the assistance of Deloitte & Touche LLP, January 2002

Country competitiveness is an area where governments play a very important role. Some of the successful smaller countries have employed methods to benchmark competitiveness and then use this as a key element in promoting both foreign and domestic private investment. In Ireland, for example, a National Competitiveness Council carries out extensive research on Ireland's competitive position and makes policy recommendations to the government.

Exhibit 11: **National Competitiveness Council (NCC) – Ireland**

Role of NCC

- Identify for the government the challenges for the enterprise sector in the medium term and appropriate policy responses;
- Policy priorities and programmes affecting competitiveness.

Major activities of NCC

- Competitiveness benchmarking;
- Policy recommendations.

Annual Competitiveness Report – 10 aspects of competitiveness

- Economic performance;
- Internationalisation;
- Education;
- Capital;
- Labour cost and productivity;
- Government;
- Infrastructure;
- Science and technology;
- Environmental protection;
- Quality of life.

Competitiveness Scoring

Ireland ranks 7th world-wide on the World Competitiveness Index, 2001

Source: Mr. D. O'Congaile, National Competitiveness Council of Ireland. See www.forfas.ie

Strategic Guideline 6:**Decide on incentives policy and ensure objective and regular evaluation of costs and benefits**

- 6.1 Review incentive policies in other relevant competitor countries in order to assess the level of competition and the need for incentives.**
- 6.2 Determine if incentives are necessary and design an appropriate incentives package which is affordable, likely to be effective and, in the case of EU candidate or aspiring candidate countries, compliant with EU state aid regulations.**
- 6.3 Ensure that all planned incentives are properly evaluated through cost/benefit analyses and that the scope and duration of incentive programmes are well defined.**
- 6.4 Initiate required legislative changes.**
- 6.5 Review incentives policy periodically, monitoring the cost effectiveness of incentives in achieving stated goals and revising incentives policy where necessary.**
- 6.6 Consider appropriate tax agreements with FDI originating countries.**

The government should take a hard and objective look at the use of incentives and, before introducing any incentive, confirm that it is needed in order to compete. Numerous surveys of investor determinants (see Exhibit 10) have highlighted that incentives rank lower in importance than, for example, political and economic stability, market access, competitive cost structures and an attractive environment for doing business. If the location is fundamentally uncompetitive or insecure, or if the commercial reasoning for the investment is faulty, incentives will not rectify the situation.

Incentives need to be properly justified and reviewed regularly and then adapted or phased out once they have achieved their purpose. At the same time, peremptory or retrospective changes to existing incentives, that may damage the location as an investment destination in the eyes of international investors, should preferably be avoided.

Corporation tax incentives backed by appropriate taxation agreements between the host country and FDI home country can be attractive for smaller transition economies. The trend in international agreements is towards similar tax treatment for all corporate participants in an economy, making it more difficult to target tax incentives towards foreign as opposed to domestic investors.

Incentives in the form of direct cash grants or the provision of free or subsidised buildings are often used to differentiate locations within the country itself. For example, differential incentives may be used to promote regional dispersion of foreign investment, to attract investment to employment black spots, or as incentives to the private or academic sectors to build technology parks or incubators. These incentives draw directly on government revenues, and the costs need to be balanced against anticipated advantages in regional, SME and technology development.

In Estonia, the only incentive offered is a low corporation tax rate, whereas in Ireland a mix of tax and cash incentives has been used, although the amount of direct cash incentives has been greatly reduced as economic progress has advanced.

Strategic Investment Promotion: Successful Practice in Building Competitive Strategies

Exhibit 12: **Incentives Policy in Estonia**

There is also one other basic question related to FDI promotion policies – to offer or not to offer incentives. In fact, the majority of countries world-wide offer investment incentives. Estonia provided investment incentives for foreign investors between 1992-1994. Then it was decided to abolish incentives and at the same time to reduce corporate income tax from 33% to 26%. The main reason behind this was to guarantee a level playing field for all companies, foreign or domestic. One step further was taken in early 2000, when the government decided to abolish corporate income tax on reinvested profits. So, as long as you don't take out profits from your business – you don't pay corporate income tax. The basic ideology behind this decision was to support all companies who invest into the country. The opinion of the Estonian Investment Agency was that if there is any chance, you could use public money wisely for building up crucial conditions for foreign businesses (low taxes, efficient public service, infrastructure, and education) you should rather do it. If you are not able, for example, to reduce the tax burden for companies or provide good education for your people, then you may be willing to give investment incentives or training grants in order to compensate those shortcomings in your country."

Source: Mr. Agu Rimmelg, former chief executive, Estonian Investment Agency. See www.eia.ee

Exhibit 13: **Incentives Policy in Ireland**

Ireland has enjoyed the benefits of a rapidly growing economy for much of the 1990s, based on the policies of successive governments in ensuring an attractive investment climate and a competitive location for mobile foreign investment, and in encouraging these companies to deepen their roots in the local economy. The country has focused on growth of international sectors, such as international services, pharmaceuticals and information technology.

Incentives have played a role in attracting foreign investors to a peripheral location within the EU. In recent years, incentive policy has changed to reflect the much more developed nature of the Irish economy, and the government's economic objectives of regional development, adding value and strengthening the strategic importance of investments to their MNE parents, encouraging linkages to the domestic economy, and targeting new emerging sectors such as the knowledge economy, where long-standing human capital investment policies give Ireland some competitive advantages.

Government policy is to move to a more transparent mix of tax and financial incentives. Corporate tax policy is to move from differing rates and allowances to a standard low rate of 12.5%. Having served their role of "pump priming" foreign investment in a time of high unemployment, financial grants have been reduced by up to 70% per job over the past 15 years. Incentive policy is becoming more simplified, and more focused on influencing investor behaviour in the direction of government policy objectives.

Source: *Annual Report of IDA Ireland* and *Enterprise 2010 Report of Forfas*, an Irish policy advisory board. See www.idaireland.com and www.forfas.ie

Exhibit 14: Incentives Policy in Hungary

Hungary operates a comprehensive incentives programme which is oriented both towards attracting foreign investment and diverting it to selected sectors, activities or regions. The programme encompasses fiscal and financial incentives and other schemes such as industrial free trade zones and parks and local and regional incentives.

The majority of the fiscal incentives will be phased out in the coming years. The corporate tax law specifies the rate, duration and conditions for obtaining tax relief. Investments in production facilities or hotels that exceed HUF 1 billion may receive a 50 per cent tax allowance (100 per cent for investments in priority regions or in entrepreneurial zones) for 5 years, provided that the increase in sales revenues exceeds a set minimum level. Priority regions are classified as those with an unemployment rate of over 15 per cent in June of any preceding tax year. Full corporate tax relief for 10 years is available to investments that exceed HUF 10 billion (HUF 3 billion in underdeveloped regions). Underdeveloped regions are defined as those with an unemployment rate in excess of 15 per cent in the two-year period prior to the investment project. The same allowance is available for companies undertaking an infrastructure project in such regions in the year when the project is put into operation. This preferential treatment is granted subject to achieving a pre-determined minimum sales revenue and an increase in the number of jobs created. A corporate tax allowance is available for research and development and provides for the deduction from the tax base of 20 per cent of the direct costs incurred in connection with such activities.

The overall tax regime offers a high degree of transparency and is being constantly developed in line with OECD standards and EU legislation. The range of tax incentives specifically for investors has been reviewed and modified accordingly over the past 10 years. In particular, former incentives favouring solely foreign investors were made either available to Hungarian owned companies or discontinued.

Source: OECD *Reviews of Foreign Direct Investment: Hungary*, 2000.

Strategic Guideline 7:

Undertake a comprehensive review of skills available versus skills required by investors. Develop and implement policies to address identified gaps and thereby facilitate new investment, jobs and skills

- 7.1 Identify key skills in the industry sectors that are being targeted for FDI and ensure that well constructed training, retraining, skills development and educational programmes are provided to meet the changing needs of both domestic and international investors.**
- 7.2 Seek joint involvement of relevant state organisations with industry players in designing and conducting training in order to ensure relevance and quality practices.**
- 7.3 Set out an information society strategy which is co-ordinated with FDI policy and promotion, addresses the range of training and skills development demanded by many technology companies, and attracts investment in modern technology sectors.**
- 7.4 Within the framework of the above strategies, ensure good collaboration between the education sector, training sector and industry in order to provide new job opportunities and meet the needs of investors.**

One of the key areas in which countries (or regions within countries) can develop a competitive advantage is in the area of human skills (See Exhibits 15, 16 and 17). This is a broad area that affects wide sections of society, and the role of the IPA should be primarily as interpreter of investor needs and future trends as well as instigator of actions to implement policies and programmes to meet those needs.

It is important to emphasise that investment in training brings benefits to international and domestic investors and to the individual in society. In the modern information age, skills acquisition and development are crucial to the competitive status of a country. Many studies have shown that the return on investment in training and education is very high, provided that the skills acquired can be used within the country or region concerned. As high-level skills in particular have a fairly long lead time (three to six years for university level), careful planning of the country's future needs is required.

Future needs may differ from current needs. This is particularly the case for countries whose economies are in a state of transition. Forecasting the future skills needs of an economy is a complex and difficult task, but it must be attempted if wasteful investment in education and training is to be avoided. To be productive, such investment must be congruent with, and supportive of, investment in other areas of the economy, particularly in the area of industrial development.

This matching of the needs of industry, particularly FDI, has to be done on a continuous basis to ensure that the evolving needs of investors in the skills area are continuously matched by the outputs of training and educational institutes. The only way to achieve this match is to have a formal structure bringing together representatives of educational and training institutions, industry, the IPA, specialists in the area, and the government.

Countries that succeed in continuously fulfilling the evolving skills needs of industry will have a very strong competitive advantage in attracting new investment and moving up the skill and value chain in the type of industry attracted.

Exhibit 15: Costa Rica's Development Strategy based on Human Capital and Technology

"First, it is clear that Costa Rica's long term commitment to investing in education has been an important factor behind recent developments. As the FIAS study confirmed, the country's main competitive advantage lies with a labour force that is well educated relative to cost. Countries should focus not only on increasing coverage of primary and secondary education, but should also put in place technical high schools and universities that guarantee a steady stream of technicians and professionals in the areas where the country has competitive advantage."

Source: Andres Rodriguez-Clare, *Costa Rica's Development Strategy based on Human Capital and Technology: how it got there, the impact of Intel, and lessons for other countries*. Written for the *Human Development Report of 2001*, UNDP

Exhibit 16: Expert Group on Future Skill Needs in Ireland

Knowledge is now universally acknowledged to be the key factor determining long-run economic progress. The Government established the business education and training partnership in late 1997 to develop national strategies to tackle the issue of skill needs, manpower needs estimation, and education and training for business. The key elements of the partnership are:

- The Business/Education and Training Partnership Forum;
- The Expert Group on Future Skill Needs;
- The Management Implementation Group.

An adequate supply of the skills required by industry will be a key determinant of the future growth potential of the economy. It is a key policy requirement that skill needs, both in terms of number and type, are estimated and that the correct policies are put in place in sufficient time to ensure that the skill demands of the economy are met. This is no easy task, as the supply chain for providing specialist skills can take up to four years and needs are difficult to estimate accurately.

It is important to ensure that the education/training infrastructure is used intensively. The Expert Group has prioritised the interventions that are most cost effective (using existing educational facilities) and most flexible and rapid (multi-skilling/conversion programmes). It has also sought to maximise company involvement to ensure that the response is demand-led.

Source: Extracts from *Responding to Ireland's growing skill needs – the first report of the Expert Group on Future Skill Needs*, Forfas, 1999

Exhibit 17: Knowledge Sharing and International Expansion

"Greater integration will be encouraged between our inward activities and our outward activities in support of the international expansion of Scottish companies. The theme of knowledge will be central to both aspects of our international work. While the exporting and internationalisation activities of Scottish companies will focus on the exploitation of Scottish knowledge in overseas markets, our inward activities will not only attract economic activity but also overseas knowledge to strengthen key industries and clusters in the Scottish economy."

Wendy Alexander
Minister, Enterprise and Lifelong Learning

Source: *Locate in Scotland: Annual Review 2000/2001*

Strategic Guideline 8:

Ensure the provision of essential infrastructure needed by industry – industrial estates, modern factory and office buildings, utilities (electricity, gas, water), effluent treatment, drainage, telecommunications (including access to broadband networks) and different modes of transport

- 8.1 Based on the target sectors identified, develop “centres of excellence” which will attract investors by making available infrastructure that will give the country or region an advantage when competing internationally for investment.**
- 8.2 Examine the potential advantage to be gained from the provision of advance factories, serviced offices or serviced land (with all utilities in place) for selected investors and encourage private sector suppliers to meet this demand.**
- 8.3 Devise commercial packages with infrastructure providers to ensure the provision of specialist infrastructure (e.g. pharmaceutical and chemical industries have specialist needs in the areas of water, environmental treatment and procedures).**
- 8.4 Within the framework of the information society strategy, ensure that a modern telecommunications infrastructure, in particular high-speed broadband access, is provided or planned.**

Countries – or regions within countries – are frequently not even considered by potential investors if they lack basic infrastructure. If they have the basic infrastructure required by the industry concerned, then they can enter the competition for investment. To win, they must have something more than the basic infrastructure.

What constitutes basic infrastructure varies from sector to sector. Most businesses will need road access and electricity. Some (but not all) will also need gas or railway access. Broadband telecommunications is more and more in demand by modern businesses, especially service businesses. Specialist effluent treatment facilities will be required by the paper, chemical and agribusiness sectors. Besides the “quantity” of infrastructure (e.g. available generating capacity in the case of electricity), investors are very concerned about the “quality” of infrastructure (e.g. voltage stability, frequency stability, numbers of outages in a year). Finally, the cost of infrastructure may be an issue for some industries.

As in the area of skills, the planning of infrastructure must take account of the likely future needs of the industrial sectors being targeted by the FDI programme. Prioritisation on sectoral and regional bases will be required. The government should carefully assess the advantages and disadvantages of public-private partnerships (PPPs) for the provision of infrastructure.

IPAs may not be directly involved in the provision of any of the essential infrastructure, although some countries have used their IPAs as providers. However, they again have a vital role to play in interpreting investors’ needs and serving as a proactive provider or intermediary (see Exhibits 18-20), where necessary, to ensure the provision of such infrastructure.

Exhibit 18: Industrial Zones in the Czech Republic

“There are over 50 municipal industrial zones in the Czech Republic and new ones are created every month with the financial support from the government.

- Prepared greenfield sites;
- Fully developed infrastructure;
- Manufacturing halls;
- Support from municipalities.

CzechInvest maintains a comprehensive database of greenfield and brownfield site options available across the country.”

Source: Promotional brochure of CzechInvest, Czech State Agency for Foreign Investment

Exhibit 19: A 21st Century Property Approach

“An integral part of IDA Ireland’s strategy to maximise efficiency and speed of start up for companies establishing operations in Ireland is to have quality, designed office and production facilities readily available. Our Property Division manages the provision of these building solutions, in a partnership with private investors, and we offer a network of flagship Business & Technology parks, which are constantly being expanded and upgraded, throughout the country.

The Business Park network is a key part of our strategy to maximise the regional spread of inward investment across Ireland. Each of the Parks is masterplanned from day one, ensuring that the overall design integrity of the Parks is maintained as the buildings roll out over time. Together with the advance provision of site development works and infrastructure – telecommunications, utilities, etc. – the masterplanning approach provides high levels of landscaping and finishing which combine to provide a cost competitive and attractive corporate work environment for the companies and their staff. The product offering on IDA Business Parks is being further developed through the provision of quality childcare facilities initially on a number of the larger parks.

‘2002 will be a busy year for IDA’s Property Division’ according to Dermot Clohessy, manager of the division. Managing one of the largest property portfolios in the country, we have significantly increased our activity and level of service in recent years to meet clients’ needs to the highest international standards.”

Source: *Business Ireland*, Spring 2002, vol. 15, no. 1

Exhibit 20: Commercial Properties and Sites Available in Wales

“The WDA maintains information about property (land and buildings) being marketed in Wales. This valuable property resource will not only help you or your client’s business, but will also answer the vital questions which help you make good investment decisions. There are freehold and leasehold sites, and buildings for rent or purchase. Descriptions include planning guidelines, aerial photographs and location maps. Some properties can be viewed internally and externally via a virtual reality tour. Users can search the database for a site of a certain size, or applicability, for example as a call centre development.”

Source: Welsh Development Agency Website: www.invest-in-wales.com

Strategic Guideline 9:**Identify administrative barriers to FDI and establish a programme with clearly assigned responsibilities and target dates to remove such obstacles to investment**

- 9.1 Undertake regular reviews of the investment climate in the country, using independent expert advice and surveys of investors' opinions.**
- 9.2 Draw on the experience of other countries in identifying and addressing the major issues affecting the investment climate.**
- 9.3 Ensure that regulations and procedures which impact on foreign investors are coherent and consistent.**
- 9.4 Establish a programme with clearly assigned responsibilities and target dates to remove administrative barriers to foreign investment.**
- 9.5 Inform and educate society on the negative impact of barriers to FDI.**
- 9.6 Provide appropriate structures to facilitate access by foreign investors to senior politicians and government officials.**

Investment climate issues are of critical importance to foreign investors.

The investment climate is determined by a multitude of factors: degree of macroeconomic stability and growth in the country with respect to inflation, exchange rates and balance of payments, and economic expansion; political stability; and progress in private sector reform and liberalisation, including privatisation and fiscal, financial and labour reforms. The investment climate also includes such issues as cost structure, productivity, skills availability, sub-supply network and transportation.

Progress in improving the investment climate provides important signals in establishing the country's credentials as a location where investors feel optimistic about economic prospects and the climate for doing business.

Barriers cause high transaction costs for the foreign investor and may deter future investment. These issues also include, for example, the rule of law, personal security, arbitrary government behaviour changing the investment climate, corruption, discrimination against foreign investment, secure and regulated financial systems, free flow of capital, and international standards of accounting and arbitration. Fundamental problems of law and order and large-scale corruption can result in investors' avoiding particular countries altogether. Many countries have addressed these problems on a national level, often with support from international organisations (see Exhibit 21), but their image remains negative with investors due to the prevalence of petty corruption and local small-scale barriers. These local barriers include both administrative barriers, for example in obtaining approvals and licences at time of entry and start-up, and operational barriers concerning tax, foreign exchange, import/export procedures, labour and social security. Implementation of recommendations for change is vital.

Exhibit 21: Foreign Investment Advisory Service (FIAS)

FIAS was established in 1985 to help developing and transition country governments in designing initiatives to attract foreign direct investment. FIAS is a joint service of two of the world's largest multilateral development institutions: the **International Finance Corporation (IFC)**, and the **World Bank**. FIAS advises on laws, policies, incentives, institutions, and strategies which help countries increase the amount of investment they receive – and the benefits this investment produces.

FIAS works only at the request of governments, on topics identified by the government and agreed to by both parties. This arrangement ensures the relevance of the assistance and lays the basis for active partnership. Working methods include written reports, interactive workshops and roundtable meetings, that often include business executives and other stakeholders, thus helping governments chart – technically and politically – practical paths to change. Assignments typically take three to six months to complete. FIAS communicates its recommendations in a written report or by other means, such as workshops.

The advice that FIAS gives is confidential to its government clients, who are under no compulsion to follow that advice. FIAS provides a frank assessment of a country's strengths and weaknesses for attracting foreign investment. The Service has a strong record of putting forth recommendations that client countries recognise as valuable and therefore act on.

Topics: Diagnostics; Legal and Regulatory Environment; Administrative Barriers; Investment Incentives; Investment Promotion; Building Linkages; FDI Data Systems

Source: Foreign Investment Advisory Service (FIAS), 2001
See www.worldbank.com

Uncertainty, particularly in relation to the security of an investment or the “rules of the game”, is a major impediment from the perspective of the investor. Transparency is difficult to measure. Nevertheless, foreign investors take it very seriously. For example, PricewaterhouseCoopers has developed an “Opacity Index” (see Exhibit 22) which ranks countries by level of transparency. Developed countries outscore transition ones, which partly explains why so much investment flows between developed countries.

Exhibit 22: Opacity Index – PricewaterhouseCoopers

Economists assembled by PricewaterhouseCoopers, an international consultancy, have produced an “Opacity Index”. This index attempts to weigh the effects of unclear legal systems and regulations, macroeconomic and tax policies, accounting standards and practices, and corruption on the capital markets of 35 countries.

China and Russia are ranked as the most opaque, Singapore and USA the most transparent.

To the extent that opacity puts foreign investors off, it generates the equivalent of a risk premium in the interest rates of a country's debt holdings. For example, estimate the authors, the premium on an Indonesian government bond issue, relative to an American or Singaporean one, is more than ten percentage points.

Source: PricewaterhouseCoopers, see www.pwcglobal.com

Strategic Guideline 10:

Promote FDI by undertaking a comprehensive and professional marketing programme aimed at new and existing investors and by building the IPA as a credible and competent partner for investors

- 10.1 Use professional surveys of investor perception of the country as the basis for an image-building programme.**
- 10.2 Develop an international image-building programme aimed at the foreign investment community and international business media.**
- 10.3 Include, where possible, the existing foreign investor community in promotion activities.**
- 10.4 Use senior political figures and government officials, existing foreign investors, and the overseas expatriate community as “ambassadors”.**
- 10.5 Identify and target growing sectors, i.e. sectors where the country can offer competitive advantage.**
- 10.6 Within these sectors, identify the key investing companies and the decision-makers within those companies.**
- 10.7 Implement an investment generation campaign aimed at key executives in potential investing companies and based on an appreciation of investors’ investment priorities and on the competitive advantages the country can offer in response to those priorities.**
- 10.8 Organise and conduct well planned country visits by potential investors, ensuring the provision of all relevant information and advice necessary to assess the country’s attraction as an investment location.**

Countries and IPAs need to undertake a strategic approach over time to:

- Image-building;
- Investment generation;
- Facilitating investment at all stages (see Strategic Guideline 11).

Image-building is particularly important for countries which are new to investment attraction, are undergoing rapid political and/or economic reform, have been faced with violence or terrorist acts (directed either to themselves or to neighbouring states), or are small and therefore receive little international media coverage.

Image-building is a foundation block in the process of attracting FDI. Its role is primarily that of focusing investor interest on the location and overcoming negative perceptions rather than directly persuading a multinational company to invest.

Image-building may require considerable and well-targeted expenditure over time (see Exhibit 23), but in itself is not sufficient to make an investor decide on a particular country or location.

For direct selling a more targeted approach is needed, based on the business needs of the investor. This can be a long-term process, requiring regular contact over several years before the IPA and its country come automatically into the investor’s mind when reviewing new business strategies and making investment decisions.

Exhibit 23: Spending on Image – WAIPA Survey**IPA Budgets for Image-Building**

<i>Country Category</i>	<i>Average Annual Budget (US\$)</i>
OECD Member countries	600,000
Transition countries	325,000
Developing countries	400,000
Least developed countries	50,000

Source: MIGA–UNCTAD–WAIPA, *Best Practice in Investment Promotion Survey Results*
See www.waipa.org

At the image-building stage the basic tools of marketing are applied to the marketing of the country. Techniques include segmenting markets, direct marketing, telemarketing, investment exhibitions, missions and seminars, and direct selling. Individual companies and key decision-makers within selected companies are targeted.

To make this approach work in reality, the IPA has to build and maintain a presence in its key geographical markets, focusing on those companies looking for the particular advantages offered by their country and maintaining regular personal contact with key decision-makers.

Exhibit 24: Investment Promotion Toolkit – MIGA**Building Institutional Capacity to Facilitate FDI in a Competitive Marketplace**

During much of the 1990s, foreign direct investment (FDI) flows to developing countries grew at more than 20 per cent per year and were estimated at \$240 billion in 2001. However, only a handful of countries benefited; ten host countries accounted for 77 per cent of developing country FDI inflows according to UNCTAD's *World Investment Report*. In the face of this increasing competition for FDI world-wide, investment promotion intermediaries in developing countries have had to reassess and refine their approaches to attract transnational corporations to their locations. The World Bank Group's Multilateral Investment Guarantee Agency (MIGA) offers particular expertise in the development of the institutional capacity of these IPAs.

Recognising the many challenges faced by investment promotion agencies in their outreach efforts to investors, MIGA developed the **Investment Promotion Toolkit**. The toolkit is designed to support investment promotion intermediaries in achieving their objectives for attracting and retaining foreign direct investment. It serves as a handbook on investment promotion that can be used by: investment promotion agencies; investment consultancies; sector ministries; international development organisations; national, state, and local economic development agencies; and privatisation agencies, among others.

The Toolkit consists of nine separate modules, covering the central functions of promoting FDI:

Module 1: Understanding Foreign Direct Investment addresses trends and factors propelling overseas investment and issues faced in harnessing FDI so as to foster growth and economic development.

Module 2: Developing an Investment Promotion Agency outlines the primary steps in setting up or restructuring an investment promotion agency.

Module 3: Creating an Investment Promotion Strategy explains how to use an understanding of a location's strengths and weaknesses to guide strategic planning.

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Module 4: Building Effective Partnerships provides guidelines to help in determining when partnering with other organisations makes sense, and what benefits can be derived.

Module 5: Strengthening the Location's Image outlines the elements of image-building – assessing how investors view the location, identifying strengths and weaknesses, and developing an action plan.

Module 6: Targeting and Generating Investment Opportunities includes how to develop and maintain a lead tracking database, and plan and execute an investment campaign.

Module 7: Servicing Investors discusses appropriate techniques in preparing for the site visit, managing the visit programme and post-visit follow-up, and providing aftercare and service.

Module 8: Monitoring and Evaluating Activities and Results provides practical guidance on how performance measurement improves operations and demonstrates the value of promotional activities.

Module 9: Utilising Information Technology examines the role of online services in investment promotion and provides guidelines for establishing, developing, or maximising potential.

The Toolkit is an integral part of MIGA's capacity-building work with its clients, providing a structured approach to establishing and maintaining the key activities of an investment promotion intermediary. It also serves as a reference tool after MIGA's formal capacity-building work is completed.

Source: MIGA – contact Cecilia Sager at csager@worldbank.org
See www.ipanet.net

Strategic Guideline 11:**Facilitate investment and service investors at all stages of the investment cycle, from start-up through to post-investment and new expansion stages**

- 11.1 Ensure that IPA staff has the right skills, experience and training to deal with senior foreign investors (i.e. appropriate salaries have to be paid).**
- 11.2 Prepare and manage visit programmes, paying attention to the details of itineraries as well as content.**
- 11.3 Agree on the itinerary in advance with the investor, addressing all key issues that the investor wants to clarify.**
- 11.4 Ensure early contact with local suppliers (component suppliers, subcontractors, service providers) in order to facilitate the potential investment and use of the local supply network.**
- 11.5 Assemble the development package, negotiate legal agreements, provide assistance during start-up and a complete corporate development facilitating service during the early years of operation.**
- 11.6 Maintain contact and work closely with existing investors, as they can have powerful influence on other potential new investors and are themselves a major source of new investment through expansion, introduction of new products, etc.**

Once the potential investor displays real interest, the process of country visits, negotiations, advice, legal and regulatory matters, visits with existing investors, financing, location choice, property, recruitment, training, and post-investment facilitation must all be provided in a professional way to the investor. Each investor is different, as is the amount of support required. Whatever the demand, within reason, the IPA must be able to respond from own or private resources. This is the critical first step in introducing the investor to the local community. An investor will not visit a location unless the country is being given serious consideration. Impressions count, even if the objective location determinants are of paramount importance. It is also important to remember that the investor is likely to be visiting other shortlisted locations on the same trip. These locations will also be competing strongly for the same investment.

Potential investors will always be interested in visiting existing foreign investors in the country, especially those from the same country or the same sector. The unsolicited recommendation of a fellow foreign investor can be a major advantage for a location.

The servicing of investors includes not only the visit, but also the management of the post-visit and follow-up and aftercare processes. Post-visit activities involve putting together a development package for the investor comprising, for instance, property, training and fiscal and/or financial incentives. Follow-up and aftercare include the handling of requests for assistance on matters such as taxation, work and residency permits, company registration, tariffs, building permits, utility connections and many other items. The links with investors should be ongoing after start-up, with the objective of embedding the affiliate in the host economy and maximising the benefits associated with its presence, to the mutual benefit of the country and the investor. The *MIGA Investment Promotion Toolkit* (see Exhibit 24) provides detailed operational guidelines for IPAs on how best to service investors.

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Exhibit 25: **Support for UK Investors**

The UK greatly values the contribution that overseas-owned companies have made since the first company set up residence two centuries ago. We look not only to encourage new investment but to understand the strategic drivers that affect your business and offer on-going support to help your company to thrive once you have located. We believe in the marketing adage that for us to continue to succeed we must look after our existing customers and continue to provide support and help to create opportunities and meet concerns.

Invest-UK, the inward investment arm of British Trade International and the only organisation supporting overseas-owned companies across the whole of the UK, is at the centre of a vast national network of UK organisations, specialists and business support bodies. This country-wide support network operates under the banner of the 'International Investor Development Programme'. The programme exists to provide direct help with the issues that your company faces.

The network can provide assistance in a number of key areas, including:

National/international support:

- Voice in government for policy issues which are affecting or may affect your business;
- Introduction to process improvement initiatives, impacting on productivity;
- Assistance with immigration issues, including provision of work permits;
- Finding new markets, using the resources of Trade Partners UK;
- Introduction to R&D and technology best practice schemes, bringing added value to both UK and global operations;
- Assistance in winning internationally mobile projects (utilising any existing contacts our overseas operation will have established with global or European HQs);
- Help in developing tomorrow's technologies;
- Signposting to sources of assistance within central and local government;
- Advice in navigating relevant regulatory bodies;
- Advice on financial incentives.

Regional support:

- Building and managing your supply chain;
- Help in identifying new customers;
- Introduction to training programmes, including investigating the opportunities for financial support;
- Staff recruitment and retention support;
- Advice on local financial incentives;
- Assistance with site issues, including advice on planning regulations and exploring new locations for expansion;
- Advice on general regulatory issues;
- Provide links with UK centres of excellence (e.g. universities undertaking research in your area of business).

Source: Extracts from the Invest-UK Website: www.investuk.org

Strategic Guideline 12:**Encourage greater integration of foreign businesses into the economy and the establishment of foreign investment in the country**

- 12.1 Survey foreign investors on what they purchase and are willing to purchase from the local economy in terms of services, materials and technological support.**
- 12.2 Develop specific support programmes aimed at domestic suppliers, training institutions and technology centres capable of becoming internationally competitive suppliers to investors.**
- 12.3 Identify gaps in local firms' management training and technological capacity to support targeted foreign sectors, and support investment to close the gaps.**
- 12.4 Identify and support local manufacturing and service firms capable of developing an internationally competitive position through the development of sub-supplier programmes based on the needs of the foreign investor.**
- 12.5 Support programmes aimed at upgrading indigenous management, technology and language skills provided by management training institutes, universities, etc.**
- 12.6 Support programmes linking foreign investors and the higher education sector in the development of new technologies, associated start-up companies and technology clusters based on shared exploitation of academic, human and capital resources.**
- 12.7 Encourage enterprises to act in conformity with the OECD *Guidelines for Multinational Enterprises* (see Appendix 2).**

Aside from the direct benefits of FDI (capital investment, employment, exports, tax revenue and local purchasing), foreign investment can also act as a key driver of local enterprise development. It can do this by developing management and technical skills, improving quality and service standards, encouraging links with technical research institutions, developing suppliers of goods and services, and influencing education policy on a national level. (See Exhibit 26).

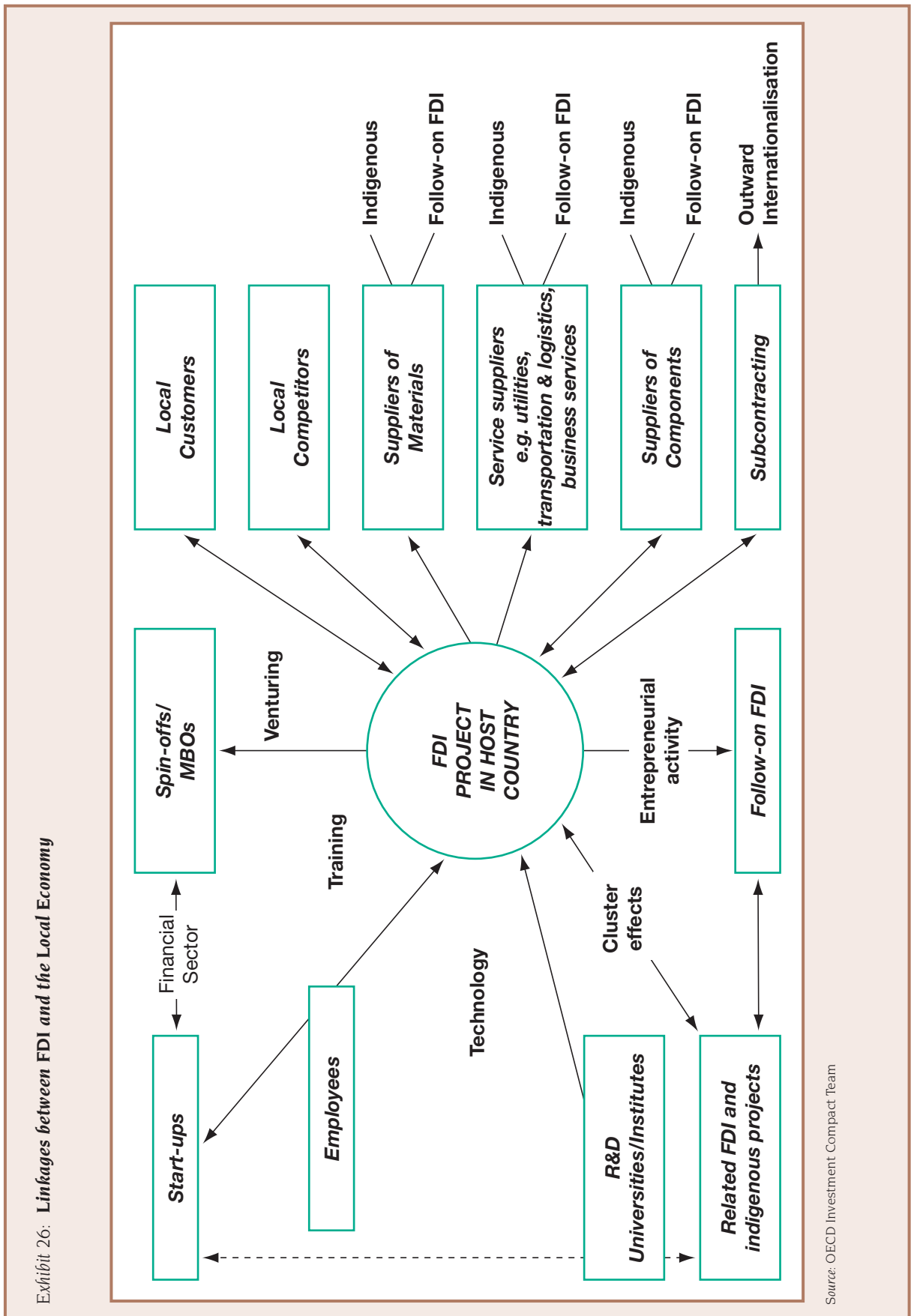
Linking foreign investment to the local economy can strengthen the security of the investment itself while also contributing to the development of an entrepreneurial indigenous sector. There will always be some level of contact between the foreign investor and the local economy, even if only limited to basic infrastructure and labour supply. The objective of the government and the IPA is to deepen these contacts in order to both secure the initial investment itself and develop the capacity of the local economy to meet international standards of quality, service and price, and to thereby become internationally competitive in its own right.

This process requires a two-pronged strategic approach:

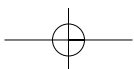
- Motivating foreign investors to increase the direct benefits of the investment to the local economy;
- Developing an internationally competitive domestic sector (which will be assisted by promoting linkages between foreign investors and the local economy).

Successful and competitive practice today demands that host countries and IPAs take the onus in maximising the benefits of FDI through proactive and constructive partnerships with investors.

Strategic Investment Promotion: Successful Practice in Building Competitive Strategies



IV. APPENDICES



Appendix 1

Investment Promotion Network and Istanbul Programme for Investment Promotion

1) *Background and Introduction*

Despite major transformation in the politics, economics and societies over the past decade in the 18 transition countries belonging to the Investment Promotion Network¹, the level of foreign investment has been disappointing, remaining below international averages and being concentrated mainly in natural resources and privatisation. Although making up six per cent of world population, these countries account for less than two per cent of world foreign direct investment (FDI) and gross domestic product (GDP).

The Investment Promotion Network, established in 1996, is a unique forum for the exchange of experience between Network countries, international organisations, private businesses, and OECD Member countries, allowing countries to exchange information and views on “best practice” means for promoting investment. Using the facilities of the Centre for Private Sector Development in Istanbul, the Network is also an ideal body to act as a central co-ordinator of this process.

While considerable progress has been made in improving the environment for FDI, particularly in the basic political, legal and administrative structures, there are still significant barriers in the Network countries to foreign investment such as administrative obstacles, deficiencies in the legal and institutional framework. The changing investment climate has been discussed over the years by the Investment Promotion Network, leading to various initiatives and a deepening understanding of the requirements of foreign investors, and the positive role they can play in developing economies and societies.

Considering the increasingly important role of foreign investment flows in the transfer of know-how and capital throughout the world, it is very important that Investment Promotion Agencies (IPAs) should effectively and efficiently carry out their mandates of attracting foreign investors to their countries. The understanding is that each country will endeavour over the next ten years to at least double its share of global FDI. To do this, the IPAs need to be properly structured and funded, and capable of adapting to the increasingly rapid changes in global business. In this context, particular attention should be paid to the emergent long-term trends and new forms of foreign investment and extensive use of information technologies.

The Istanbul Programme for Investment Promotion (IPIP) has been designed as a dynamic process that will respond to new challenges and requirements and address numerous complex issues affected by IPA policies and budgetary constraints. IPIP demonstrates strong commitment by IPAs, governments, international organisations and the private sector to improve services and support to investment promotion. IPIP has been structured to reflect this, with the various projects carried out and “owned” by the IPAs themselves using existing resources, and with the workload and outputs being shared. Adequate funding needs to be secured to implement the Programme through the Istanbul Centre on Private Sector Development.

While the Istanbul Programme is primarily concerned with Investment Promotion issues relating to the attraction of foreign investors, it should of course be seen in the wider context of economic development in

1. Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, Former Yugoslav Republic of Macedonia, Moldova, Mongolia, Romania, Russian Federation, Slovenia, Ukraine, and Uzbekistan.

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transition economies, such as the policy framework for investment, and ensuring proper corporate behaviour by multinational corporations².

2) Principles and Objectives

Principles

The basic principles that will guide the overall implementation of the Istanbul Programme (IPIP) are as follows:

- Commitment to competitive market economy and to necessary structural reforms;
- Recognition of the benefits of an open multilateral trading system;
- Commitment to non-discriminatory liberalisation and transparency in policy implementation in the trade and investment arena;
- Commitment that all initiatives will be fully consistent with, and supportive of, the World Trade Organisation (WTO);
- Commitment that all initiatives will be fully consistent with other multilateral co-operation agreements involving Network partners;
- Commitment to mobilising business sector resources and ensuring active business/government dialogue and co-operation in all investment-related activities.

Objectives

The primary objective of the IPIP is to generate greater investment flows to Network countries.

To achieve this primary objective, the IPIP has the following subsidiary objectives:

- Enhance the investment climate;
- Strengthen business/government co-ordination and co-operation structures and mechanisms to ensure that perspectives and inputs from both sides are reflected in business-related activities;
- Raise the investment profile of the region among OECD countries and other major investing countries;
- Build on and create synergies among existing programmes designed to promote investment activities, including government initiatives such as the European Business Information Centres (EBICs), the European Community Investment Partners (ECIP), business sector initiatives such as the World Economic Forum, Europe-East Asia Summit, South East Europe Economic Forum, and activities of chambers of commerce;
- Improve frameworks of investment policies and regulations in the region;
- Create linkages between the business sectors of the region that will allow them to benefit from and enhance the economic dynamism and synergies of countries;
- Establish, if necessary, or enhance information networks and information-sharing systems to promote investment flows.

3) Scope and Activities

The following criteria will influence the scope and implementation of the IPIP activities:

- First, each activity must have some rationale to be considered as a Network project – some characteristic that distinguishes it from a purely country-specific or sub-regional issue.
- Second, each activity must be of concern to investors and have a direct beneficial impact on the investment environment.
- Third, each activity should not duplicate activities expected to be covered by other projects or programmes.

2. In the area of multinational behaviour, updated Guidelines for Multinational Enterprises were adopted in June 2000 by the governments of OECD Member countries, and OECD and the World Bank are currently working together on improved corporate governance on a global basis, using the Principles on Corporate Governance developed by OECD Member countries. In South East Europe, the Investment Compact, which is part of the Stability Pact established in 1999, has developed initiatives which can serve as models for the investment promotion work of this group in the future. In the area of investment policy, the Muenster Conferences of West-East Conferences of the Ministers of Economy, Industry and Trade, established in 1992, continue to develop policy initiatives for private sector development and the expansion of West-East investment and trade. The sixth conference took place in Moscow in December 2000.

- Fourth, each activity should build on and not duplicate bilateral or multilateral projects or programmes already in place within the Network partners.

4) Terms of Reference

The Investment Promotion Network will:

- Carry out the Istanbul Programme, using IPA resources, drawing on the previous work in the region, and mobilising the resources and programmes of international organisations³;
- Set up Project Teams as necessary, each headed by senior representatives of the Network IPAs, to develop the individual projects in the Istanbul Programme;
- Meet annually to review, monitor the implementation of the Istanbul Programme and consider action where necessary for following activities;
- Exchange views on investors' experience in the region and monitor developments in the international climate for foreign investment, and adapt the Istanbul Programme to reflect changing realities;
- Draw on "best practice" experiences of OECD Member countries and international organisations in developing strategies for investment promotion and maximising benefits, particularly through staff exchanges and secondments;
- Establish the Network as a forum for dialogue between government policy-makers, IPAs, foreign investors, domestic industry and other stakeholders on issues relating to investment;
- Secure adequate funding for the Network to develop the individual projects to decision stage.

5) Istanbul Programme for Investment Promotion, 2001-2010

Investment Promotion Agencies (IPAs) will carry out the following actions to maximise the benefits and promote investment:

- 1) Conduct or encourage studies on the comparative advantage of their countries in attracting foreign investment, identifying priority sectors for investment promotion. For this purpose they will conduct surveys of investment opportunities and market prospects, investors' expectations and the capacity of the local economy in delivering infrastructure, skills and services for foreign investments.
- 2) Periodically review investment trends and the investment climate in their countries, identifying obstacles, risks and opportunities and suggesting necessary policy changes. IPAs will act as a window on their countries' business developments, focusing on key factors such as physical and human infrastructure, human resources, technology, market access and the environment.
- 3) Actively promote and advocate, vis-à-vis the competent government bodies and regulatory agencies, open investment policies including fair, equitable and non-discriminatory treatment of foreign investors and their investments. IPAs should be consulted on legislative and regulatory reform proposals having an impact on foreign investment.
- 4) Encourage the interaction of FDI with local capacity-building in terms of components, supply, subcontracting, human resources and SME development.
- 5) Seek a business dialogue between government officials, foreign investors, the domestic private sector and other stakeholders to promote investment opportunities, overcome obstacles and create a climate of mutual confidence. IPAs will work with their partners to help create conditions for sustainable development through investments. They will encourage responsible investment behaviour in line with international principles and standards such as the *OECD Corporate Governance Principles and Guidelines for Multinational Enterprises*.
- 6) Seek to facilitate solutions, through informal and non-adversarial procedures, of any disputes which may arise between governments and foreign investors.
- 7) Contribute to national and regional efforts to promote SMEs, extending their assistance for the search of foreign partners, co-ordinate with national SME development agencies and support private/public partnerships for enterprise development.

3. Investment policies and regulations, including all activities relating to the regulatory and legal framework governing the investment environment, will also be taken into account in all the Network activities. These issues generally involve a strong government contribution, with the business sector providing consultative inputs. OECD's multidisciplinary approach and links will be used for this purpose.

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- 8) Support institution-building in the private sector through chambers of commerce and business associations as well as investors' councils or other bodies that can provide advice to governments in private sector development.
- 9) Develop close relationships with established foreign investors in their countries to assist local management in securing expansions and additional functions such as product and process development and marketing.
- 10) Inform governments and the general public of the economic impact of foreign investment, best practices of investment promotion in OECD Member countries and other countries in order to secure effective operating structures and adequate resources.
- 11) Seek support from key players in the domestic economy such as policy-makers, the private sector, regional promotion agencies and international organisations for an active policy of marketing their countries and identifying and targeting foreign investors.
- 12) Attach high value to the development of the competence and motivation of human resources. IPAs will promote the integrity of their staff and sanction misbehaviour, such as corrupt practices.
- 13) Review their institutional setting, if necessary, organisational structures, decision-making procedures and funding arrangements with a view to providing efficient service capacities, including the capability of identifying and negotiating foreign investment projects and successfully integrating them in the local economy.
- 14) Elaborate and publish country profiles indicating the opportunities for long-term investment and describing the policy environment.
- 15) Explore available options to strengthen their financial bases, e.g. through sufficient government funding, private sector contributions in money or kind, remuneration of services rendered and donor programmes.
- 16) Develop appropriate regional programmes to promote their regions to targeted overseas investors.
- 17) Contribute to comparative studies on, and the promotion of, best practices for investment promotion and participate in relevant regional and international activities.
- 18) Engage in programmes of temporary staff exchanges with foreign IPAs, the private sector and regional or international organisations.
- 19) Engage in a systematic information exchange with other IPAs at bilateral, regional and international levels and give positive consideration to information requests from foreign agencies and investors. IPAs will supply data to relevant international information systems for on-line access.

Appendix 2

OECD Experience with International Investment Instruments

Since its inception some forty years ago, the OECD has long been at the forefront in efforts to develop international “rules of the game” relating to capital movements, international investment and trade in services. Member governments have established disciplines for themselves and for multinational enterprises by means of legal instruments to which Member countries commit themselves. These instruments have been regularly reviewed and strengthened over the years to keep them up to date and effective.

Declaration on International Investment and Multinational Enterprises

The OECD Declaration on International Investment and Multinational Enterprises is a political agreement providing a balanced framework for co-operation on a wide range of investment issues. The Declaration contains four related elements: (1) the *National Treatment* instrument; (2) the *Guidelines for Multinational Enterprises*; (3) an instrument on *International Investment Incentives and Disincentives*; and (4) an instrument on *Conflicting Requirements*. It is supplemented by legally binding Council Decisions on implementation procedures, and by Recommendations to adhering countries to encourage pursuit of its objectives.

The Committee on International Investment and Multinational Enterprises (CIME), comprising all Member countries and a number of non-Member observers, is the OECD body responsible for promoting and overseeing the functioning of the Declaration. All OECD Members are party to it. As of April 2002, six non-Member countries (Argentina, Brazil, Chile, Estonia, Lithuania and Slovenia) have adhered to the Declaration and participate in related OECD work as a counterpart to the obligations undertaken under the instrument. Israel, Latvia, Singapore, Slovenia and Venezuela are engaged in adherence procedure as of this date. Other non-Members willing and able to adhere to the Declaration would be welcome.

Adhering to the OECD Declaration on International Investment and Multinational Enterprises

The OECD Council is the body in charge of inviting interested non-Member economies to adhere to the OECD Declaration on International Investment and Multinational Enterprises and related OECD acts, and to become full participants in that part of the CIME work which directly concerns them.

As a condition, applicants have to apply liberal policies towards foreign direct investment and be willing and able to meet the requirements and the related OECD acts. To ensure this, a full review of the applicant’s foreign direct investment policies is carried out, after which the invitation may then officially be issued by the Council.

Non-Members adhering to the Declaration are entitled to participate in the work of the CIME related to the Declaration and related acts, as a counterpart to the obligations undertaken under these instruments.

National Treatment

The National Treatment Instrument stipulates that adhering countries shall accord to enterprises operating on their territories but owned or controlled by nationals of another adhering country, treatment no less

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favourable than that accorded in like situations to domestic enterprises. The instrument does not prevent adhering countries from taking measures necessary to maintain public order, to protect their essential security interests and to fulfil commitments relating to international peace and security.

Under the Third Revised Decision of the Council on National Treatment, countries adhering to the Declaration shall notify the Organisation of all measures constituting exceptions to the National Treatment principle within 60 days of their adoption and of any other measures which have a bearing on this principle (the so-called “transparency measures”). These measures are periodically reviewed by the CIME, the goal being the gradual removal of measures that do not conform to this principle. Exceptions to National Treatment fall into five categories: (i) investments by established foreign-controlled companies, (ii) official aids and subsidies, (iii) tax obligations, (iv) access to local bank credit and the capital market, and (v) government procurement. Transparency measures include (i) measures based on public order and national security interests, (ii) restrictions on activities in areas covered by monopolies, and (iii) public aids and subsidies granted to government-owned enterprises by the state as a shareholder.

The National Treatment Instrument is solely concerned with discriminatory measures that apply to foreign-controlled enterprises *after* they are established, i.e. not with their right of establishment. If restrictions prohibit or impede in any way the activities of foreign-controlled enterprises compared to domestic ones, these restrictions are to be reported as exceptions to National Treatment. If and when an official monopoly is abolished, the stipulations of the National Treatment Instruments will begin to apply to the sector formerly covered by the monopoly.

Adhering countries are expected to comply with the *standstill* principle, that is to refrain from introducing new measures and practices that would constitute additional exceptions to National Treatment. The CIME conducts examinations to monitor and ensure compliance with the National Treatment Instrument, and issues recommendations to this effect. Most of these recommendations have been made to individual countries, but a number of them were of a general character. Concerning investment by established foreign-controlled enterprises, adhering countries should give priority to removing exceptions in those cases where most adhering countries do not find it necessary to maintain restrictions.

In introducing new regulations in the service sectors, adhering countries should ensure that these measures do not result in the introduction of new exceptions to National Treatment. Adhering countries should also give particular attention to ensuring that moves towards privatisation result in increasing the investment opportunities of both domestic and foreign-controlled enterprises so as to extend the application of the National Treatment Instrument.

In the area of official aid and subsidies, adhering countries should give priority attention to limiting the scope and application of measures which may have important distorting effects or which may significantly jeopardise the ability of foreign-controlled enterprises to compete on an equal footing with their domestic counterparts.

Finally, with regard to measures motivated by public order and essential security interests, adhering countries are encouraged to practice restraint and to limit such measures to the areas where public order and essential considerations are predominant. Where motivations are mixed (*e.g.* partly commercial, partly national security), the measures concerned should be covered by exceptions rather than merely recorded for transparency purposes.

Guidelines for Multinational Enterprises

The OECD *Guidelines for Multinational Enterprises* are recommendations jointly addressed by governments to multinational enterprises (MNEs) operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.

The Guidelines express the shared values of governments of countries that are the source of most of the world's direct investment flows and home to most multinational enterprises. They aim to promote the positive contributions that MNEs can make to economic, environmental and social progress.

Observance of the Guidelines is voluntary. Their non-binding nature, however, does not imply less commitment by adhering governments to encourage their observance. The active system under which the Guidelines are promoted and implemented attests to the importance given to the Guidelines by adhering countries. Adhering countries shall set up National Contact Points (NCPs) to deal with the implementation of the Guidelines at the national level. The purpose of NCPs is to undertake promotional activities, handle inquiries and act as a forum for discussion with the parties concerned on all matters covered by the Guidelines so that they contribute to the solution of any problems which may arise in this connection. NCPs also meet annually to share experiences and report to the CIME. Adherent countries are encouraged to translate the text of the Guidelines in their own official language(s).

The CIME's responsibilities under the Guidelines include responding to requests from adhering countries on specific or general aspects of the Guidelines, organising exchanges of views on matters relating to the Guidelines with social partners and non-Members, reviewing the Guidelines and/or the procedural Decisions so as to ensure their relevance and effectiveness, and reporting to the OECD Council on the Guidelines. The Committee is also responsible for issuing, as necessary, clarifications of the Guidelines. The purpose of these clarifications is to provide additional information on whether and how the Guidelines apply to a particular situation.

The Review of the Guidelines concluded in 2000 enabled the OECD to respond to the need for a thorough consideration of the Guidelines and to ensure their continued relevance and effectiveness. Many features of the Guidelines have been maintained: observance by firms is still voluntary, the institutional structure of follow-up procedures is broadly unchanged, and the Guidelines remain an integral part of the OECD *Declaration on International Investment and Multinational Enterprises*.

In comparison with earlier reviews, however, the changes to the text are far-reaching and reinforce the core elements – economic, social and environmental – of the sustainable development agenda. With respect to implementation, the Review has provided guidance for the functioning of National Contact Points and has clarified the CIME's role. The Review benefited from consultations with the business community, labour representatives, non-governmental organisations and governments of non-Member countries.

International Investment Incentives and Disincentives

The instrument on International Investment Incentives and Disincentives recognises that adhering countries may be affected by this type of measure and stresses the need to strengthen international co-operation in this area. It first encourages them to make such measures as transparent as possible so that their scale and purpose can be easily determined. The instrument also provides for consultations and review procedures to make co-operation between adhering countries more effective. Adhering countries may be called upon to participate in studies on trends in, and effects of, incentives and disincentives on FDI, and to provide information on their policies.

Conflicting Requirements

The instrument on Conflicting Requirements encourages adhering countries to co-operate, with a view to avoiding or minimising the imposition of conflicting requirements on multinational enterprises. In doing so, they shall take into account the general considerations and practical approaches recently annexed to the Declaration. This co-operative approach includes consultations on potential problems and giving due consideration to other country's interests in regulating their own economic affairs.

Codes of Liberalisation

Since its creation, the OECD has supported the liberalisation of trade in goods and services, and movements of capital between Member countries. This support finds concrete expression in two legally binding agreements among Member countries: the twin *Codes of Liberalisation of Current Invisible Operations and Capital Movements*, to which all Member countries adhere.

The Codes' principal idea is simple: capital and services should circulate freely across national frontiers. OECD considers that opening markets fully to cross-border flows of capital and services is beneficial both to host and home countries and to their citizens. The OECD Codes complement and reinforce other multilateral instruments promoting a liberal international economic environment.

Capital Movements

The *Code of Liberalisation of Capital Movements* is the only multilateral instrument promoting liberalisation of the full range of international capital movements other than the rules of the European Union and the European Economic Area. When the Code was created in 1961, its coverage was limited to foreign direct investment and some other long-term operations. However, since then, national economies have become more integrated, financial market regulation has become more harmonised and financing techniques have become more sophisticated. As a consequence, OECD Member countries have gradually extended the list of transactions until it could be considered complete. Today, the Capital Movements Code applies to all long-term and short-term capital movements between residents of OECD Member countries, except government operations. Examples of such movements are the issuing, sale and purchase of shares, bonds and mutual funds, money market operations, and cross-border credits, loans and inheritances.

Current Invisible Operations

Coverage of cross-border trade in services by the *Code of Liberalisation of Current Invisible Operations* is large but not quite as comprehensive. Cross-border trade in services means the supply of services to residents by non-resident service providers, and vice versa. The service providers can be companies or individuals. Major sectors covered are banking and financial services, insurance, professional services, maritime and road transport, travel and tourism, and films.

Although the two Codes differ from each other in certain respects, the general principles that govern these two instruments are broadly the same. In adhering to the Codes, OECD Member countries undertake to remove restrictions on specified lists of current invisible operations and capital movements. The ultimate objective is that residents of different Member countries should be as free to transact business with each other as are residents of a single country.

At the same time, OECD Members believe that each country should be able to advance progressively towards this goal according to its own rhythm. The Codes provide for the flexibility of lodging reservations to specific operations and for a number of safeguards to take account of the state of development of the economy and financial markets, as well as public interest concerns. Rather than pressing for liberalisation through *quid pro quo* negotiations, the Codes depend on a consultative process in which each country's individual needs, concerns and possibilities are taken into consideration.

Despite the progressive broadening of the Codes' obligations, the scope of Member countries' reservations has dramatically declined. Apart from the remaining restrictions on inward direct investment in a few economic sectors and the non-resident acquisition of real estate, virtually all OECD Member countries have dismantled their controls on capital movements.

While the Codes themselves cannot take credit for all of the liberalisation that has taken place over the past 40 years, they have provided an important multilateral framework for sustaining the individual liberalisation

paths pursued by Member countries, building domestic capacity and encouraging non-discriminatory extension of liberalisation to all Member countries. The Codes have also served as a useful yardstick by which the liberalisation efforts of Member countries can be judged and compared over time.

Moreover, if the legal commitments under the Codes only apply to the OECD area, Member governments shall endeavour to extend the benefits of liberalisation to all members of the International Monetary Fund. Thus residents of developing countries and countries in transition will be able to reap the advantages of free market access in OECD Member countries to the same extent as OECD Member country residents.

Appendix 3

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