**MENA-OECD Initiative on Governance and Investment for Development**

**Investment Programme Working Group 2**
***"Encouraging investment promotion agencies and business associations to act as driving forces to economic reform"***

# An Overview of MENA IPAs - Strengths, Weaknesses and Identifying Future Actions

## "A regional perspective"


**Mohammad T. Asfour**
Advisor, MENA-OECD Investment Programme


26-1-2005

Amman, Jordan

# Table of contents

## 1. Introduction

Most countries in the MENA region have created Investment Promotion Agencies (IPAs) - basically to work on: (i) image building, (ii) investor servicing and facilitation, (iii) investment generation and targeting, and (iv) policy advocacy. The emphasis of the IPAs depends on the purpose and state of their investment policies and how much promotion is needed in view of the country's fundamental attractions and requirement for specific types of investment. Despite some success stories, their efforts have not resulted yet in sufficiently changing the investor perceptions or affecting policy-making. Limitations in resources and policy functions available to these agencies make it difficult to emulate the "best practices" found among the leading IPAs in OECD and other countries.

As the government agency most in touch with the foreign investor, the IPAs are well placed to be an important source of feedback to government policy-makers. MENA IPAs can be a strong advocate for changes to the regulatory framework, and for the enactment of investment-friendly legislation and policies. The advocacy role is usually defined in terms of their ability to analyze and recommend policies and their role in the decision making process of Governments.

This report aims at giving a regional perspective on MENA IPAs in terms of recognizing their strengths and weaknesses to help identify future actions. It starts with an economic snapshot of the MENA region's main economic indicators. Following that is a brief description of each MENA IPA: its mandate and some general comments. After which, comes a short summary of investor needs and some challenges faced by IPAs on international, regional, national and organizational levels. At the end, we try to shed some light on the most important role of an IPA: namely advocacy.

## 2. MENA in numbers

The MENA region comprises the following Arab states in the Middle East and North Africa: Algeria, Bahrain, Djibouti, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, Tunisia, the United Arab Emirates, Yemen and Palestine.

The 16 MENA countries and territories, share common challenges and cultural links distinct from neighbouring economies. In 2002 305.8 million People inhabited the region and produced a total amount of USD 677.0 billion for the same year. However, and though countries of the region share many social characteristics their levels of economic development differ enormously. As a result GDP per capita varies considerably from one country to another.

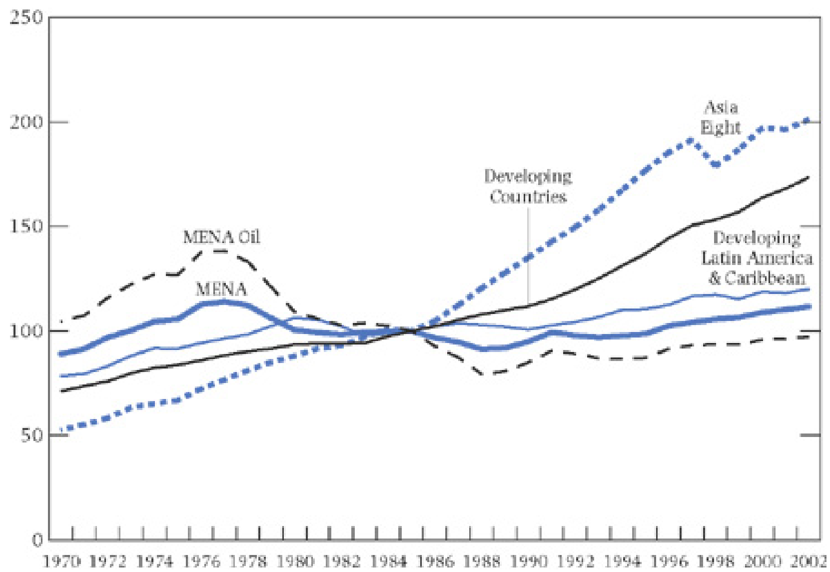
The United Arab Emirates, for example, achieved a rate of USD 22 420 of GDP per capita in 2002 while Yemen could not achieve more than USD 870, both measured using purchasing power parity (PPP). The six oil-rich countries of the Gulf Cooperation Council (GCC) have the highest per capita GDP in the region.

The following 2004 Human Development Report produced by the UN summarizes some main economic indicators:

| Rank | Country | Life Expectancy | Literacy | GDP Per Capita (PPP) |
|---|---|---|---|---|
| **High human development** | | | | |
| 40 | Bahrain | 73.9 | 88.5 | 17,170 |
| 44 | Kuwait | 76.5 | 82.9 | 16,240 |
| 47 | Qatar | 72 | 84.2 | 19,844 |
| 49 | United Arab Emirates | 74.6 | 77.3 | 22,420 |
| **Medium human development** | | | | |
| 58 | Libyan Arab Jamahiriya | 72.6 | 81.7 | 7,570 |
| 74 | Oman | 72.3 | 74.4 | 13,340 |
| 77 | Saudi Arabia | 72.1 | 77.9 | 12,650 |
| 80 | Lebanon | 73.5 | 86.5 | 4,360 |
| 90 | Jordan | 70.9 | 90.9 | 4,220 |
| 92 | Tunisia | 72.7 | 73.2 | 6,760 |
| 102 | Palestine Authority | 72.3 | 90.2 | .. |
| 106 | Syrian Arab Republic | 71.7 | 82.9 | 3,620 |
| 108 | Algeria | 69.5 | 68.9 | 5,760 |
| 120 | Egypt | 68.6 | 55.6 | 3,810 |
| 125 | Morocco | 68.5 | 50.7 | 3,810 |
| 139 | Sudan | 55.5 | 59.9 | 1,820 |
| **Low human development** | | | | |
| 149 | Yemen | 59.8 | 49 | 870 |
| 152 | Mauritania | 52.3 | 41.2 | 2,220 |
| 154 | Djibouti | 45.8 | 65.5 | 1,990 |

The region possesses about three-fourths of the world's proven crude oil reserves. GDP of the MENA region's oil exporters accounts for about two-thirds of the total GDP of the region. Please note that out of MENA's 16 countries and territories, 12 are oil-exporting countries. These are: Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, the Syrian Arab Republic, the United Arab Emirates, and Yemen.

Despite the oil revenues both oil producing and non-producing countries have been unable to achieve the expected economic growth. The following slide shows that stagnant growth rate of the region:




*Sources: IMF, World Economic Outlook; and IMF staff calculations.*

*Note: Purchasing power parity GDP weights are used for all aggregate averages except for Asia Eight, which is a simple average. Asia Eight countries are Hong Kong SAR, Indonesia, Republic of Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand. MENA oil countries are Algeria, Bahrain, Islamic Republic of Iran, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and U.A.E.*

Keller and Nabli's 2002 World Bank study of 16 MENA countries, shows that up to 47 million new jobs need to be created between 2002 and 2012 merely to keep pace with new entrants into the labour market. An additional 6.5 million jobs would be needed to reduce the unemployment rate to just below 10 percent.

"The region receives only one-third of the FDI expected for a developing country of comparable size, and most is concentrated in a handful of countries". According to the WDI database FDI inflows declined from USD 2.9 billion in 1999 to reach USD 2.7 billion in 2002 and then declined again to reach a humble amount of USD 1.8 billion in 2003.

## *3. MENA IPAs*

### *3.1. Algeria: The National Investment Development Agency*

The National Investment Development Agency (ANDI) is responsible for direct foreign investment in Algeria. The country's first investment code was announced in 1993. ANDI was created in 2001, with the adoption of the new investment law. Today, some 150 people work within ANDI, at the central level and in the first six regional one-stops. A central structure dealing with foreign investments has been created within the Head Office of the Agency.

ANDI has the responsibility to accompany both national and foreign investors, to facilitate procedures and grant any fiscal and Para fiscal exonerations. It is currently in the process of opening one-stop units in each region of the country.

**Mandate:**

- Define actions to highlight the comparative & competitive advantages of the Algerian economy;
- Propose support mechanisms for the promotion of investment and the follow up of their good execution;
- Propose to the government all useful legal and economic measures to improve investment and reduce the formalities for projects that are under way;
- Follow up on the operation of decentralized one-stops;
- Support the organization, at both national and international levels, through forums, seminars, and meetings to promote of investment.

**Comments:**

ANDI is placed directly under the authority of the Head of Government, and constitutes one of his services. However, the Minister Responsible for the Promotion of Investment and Participation has operational responsibility for ANDI. This gives ANDI good political visibility.

### *3.2. Bahrain: EDB*

The EDB is an autonomous semi-private agency that was established by an Amiri Decree in April 2000. It's responsible for formulating and overseeing the economic development strategy of Bahrain. The EDB aims at attracting Foreign Direct Investment (FDI) and has identified six main economic clusters which capitalize on Bahrain's competitive advantages and present investment opportunities. These clusters are:

- Information and communications technology
- Education and training services
- Tourism
- Healthcare services
- Business services
- Downstream Industries

**Mandate:**

- To promote investment, particularly in key economic clusters
- To support and facilitate the investment process by providing information to the investor on the process' various facets
- To assist and streamline the registration process for investors and businesses setting up in Bahrain
- To assist in resolving difficulties encountered during the approval and registration process

**Comments:**
Chaired by the Crown Prince of Bahrain; the Board consists of seven ministers and seven senior executives from the private sector. This composition of the Board ensures active participation of the private sector and high political visibility.

However, EDB's focus on as many as six sectors might be a little bit too much for a country like Bahrain.

### *3.3. UAE: The Dubai Development and Investment Authority*

The Dubai Development and Investment Authority is a Government Authority entrusted with catalyzing the growth and development of Dubai's economy by attracting corporate and private investors to the UAE and by facilitating the growth of leading local businesses and encouraging local entrepreneurs. It was established through decree no. (2) of 2002.

**Mandate:**
The DDIA focuses on five primary areas of activity.

- Matching Investors with investment opportunities: DDIA seeks to attract investment through initiating, supporting, and developing a wide variety of sizeable, ambitious, quality projects in Dubai. Projects will enjoy the risk mitigation that arises from having Government backing and a well defined Government role.
- Multinational Corporations: DDIA seeks to attract the top global multinationals to set-up in Dubai through a comprehensive value-added offering that facilitates their move to the region.
- Single Window Government Convenience Services: The DDIA provides "single window" Government and Convenience services to major investors and multinational corporations with the aim of facilitating the establishment of operations, easing legal clearances, and delivering world-class support services.
- Local business: DDIA seeks to assist top local companies in creating higher value-added functions for their businesses by supporting them in building expertise, innovating, growing, creating new partnerships, and reaching international customers.
- Small and Medium Enterprise: DDIA seeks to provide an array of services to encourage business establishment and development in Dubai.

**Comments:**
Dubai did not reinvent the wheel. Its adoption of best international practices, the political support, and efficient implementation have turned it into a globally recognized success story. One of its challenges is to promote its local entrepreneurial culture and create home grown SMEs that will, eventually, add value to the economy.

### *3.4. Egypt: General Authority for Investments and free zones*

GAFI is the primary governmental authority concerned with regulating and facilitating investment in Egypt. It provides a range of free services to investors such as: company registration, site location, partner identification, contracts and licenses acquisition. The Egyptian Investment Law no. 8 was publicized in 1997 (domestic and foreign investments). The primary means which Law 8 places at the investor's disposal are tax incentives, which range up to freedom from taxation for the lifetime of the project.

**Mandate:**

- All licenses required for the establishment and operations of a project are procured by GAFI on behalf of the investors.
- GAFI assists investors in site selection and land acquisition
- GAFI certifies the dates of commencing production and helps the investor to take full advantage of the tax holiday granted according to location.
- In this regard a One Stop Shop has been established at GAFI's headquarters to carry out the aforementioned services.

### *3.5. Jordan: Jordan Investment Board*

The Jordan Investment Board (JIB) is a government agency responsible for promoting and facilitating investment in Jordan. Since its establishment in 1996, the investment board has set the modernization of the Jordanian economy as its prime goal; its priority is to improve the quality of services provided to investors in order to ensure repeated satisfaction.

The organization plays a significant role in developing the investment climate in Jordan through facilitating and promoting business opportunities and linking business parties together.

**Mandate:**

- Enhancing confidence in the investment environment, identifying investment opportunities, promoting these opportunities and motivating investment therein.
- Simplifying the registration and licensing procedures of investment projects, following-up existing Projects, and giving them priority in the finalization of applications at official authorities.
- Establishing an investment window at the JIB which shall undertake licensing investment projects and obtaining approvals on such projects from other authorities pursuant to the legislations in force.
- Giving advice, providing available information and data for investors and issuing related guides.
- Setting and implementing investment promotion programs to attract investors to the Kingdom.

**Comments:**
The JIB has been investing extensively on image building. It recently opened a one stop shop to service investors and issue investor cards. This was perceived by some annalists as legitimizing the inefficiency of investment related authorities and discriminatory against small investors. It could have helped achieve a stronger investment environment had it advocated for recommendations included in the investment roadmap strategy prepared jointly with FIAS. Nevertheless, a new government led economic development initiative called JAED is expected to revitalize the process.

### *3.6. Kuwait: The Kuwait Investment Authority*

The Kuwait Investment Authority (KIA) is an autonomous government body responsible for the management and administration of the General Reserve Fund (GRF), and the assets of the Future Generations Fund (FGF), as well as any other funds entrusted to it by the Minister of Finance for and on behalf of the State of Kuwait.

The Kuwait Investment Authority (KIA) invests in the Local, Arab, and International Markets with its main office located in Kuwait City and a branch office in London, UK.

### *3.7. Lebanon: Investment Development Authority of Lebanon*

IDAL was established in 1994 by a decree from the Lebanese Council of Ministers to spearhead Lebanon's investment promotion efforts. On August 16, 2001, IDAL's role was reinforced by the enactment of the Investment Development Law 360, regulating investment promotion of domestic and foreign entities and striving to stimulate Lebanon's economic and social development as well as enhance its competitiveness. IDAL's mission is to promote Lebanon as a viable investment destination and foster, facilitate and retain investments in the country.

**Mandate:**
- Identifying and promoting investment opportunities in Lebanon;
- Disseminating market intelligence about Lebanon, the business, legal and investment frameworks as well as other relevant information;
- Facilitating the registration and issuance of permits and licenses required for any investment project;
- Providing ongoing support for investment projects once established;
- Identifying potential joint venture partners and strategic allies for Lebanese businesses;
- Advising the Lebanese government on investment policy issues.

**Comments:**
Although IDAL is one of the first investment promotion agencies in the region; its performance was influenced by the surrounding political situation. This might have affected investor perceptions, especially in terms of organizational stability.

### *3.8. Libya: Libya Foreign Investment Board*

The L.F.I.B. was established as a key component of the Investment Law No. 5. It provides a wide range of services required by foreign investors. This is done by means of administrative offices within the L.F.I.B.'s premises. These offices include: Customs office, Immigration and passports office, Tax office, and Labour force office.

**Mandate:**
- Provide advice, information, and support to investors.
- Identify and promote investment opportunities.
- Receive and consider applications for foreign capital investments.
- Issue licenses as well as obtaining approvals required for investment projects.
- Develop investment programs and promotional activities to attract investors.
- Recommend or renew exemptions, facilities, or benefits for the investment projects.
- Look into complaints and protests of investors without affecting the investor's right to petition and legal action.

**Comments:**
L.F.I.B's is more of a one-stop-shop office rather than a full IPA. Its mandate does not include an advocacy or an investment promotional role.

### *3.9. Morocco: The Investment Department*

Charged since 1996 with promoting Morocco among international operators; the Investment Department functions within the framework implemented by the Ministry of Economic and General Affairs. The Department conceives and implements investment promotion strategies on targeted segments.

**Mandate:**
- Identification of different categories of investors and issuing countries;
- Identification of priority sectors such as tourism, the NICT, electronic and automobile components and, textiles, aeronautics and agro-food;
- Coordination between national institutions and international organizations concerned with investment;

- Orientation of projects according to the opportunities offered by the different regions of Morocco in collaboration with the Regional Investment Centres.

**Comments:**
Being a department at the Ministry does not enable adequate autonomy it requires to perform high levels of advocacy. However, and since The Investment Department provides the Secretariat for the Inter-ministerial Investment Commission, appeal and arbitration authority chaired by the Prime Minister, it could play a more active role in advocating for change. Many investors expressed their disappointment of the high levels of corruption.

### *3.10. Oman: The Omani Centre for Investment Promotion and Export Development*

OCIPED is a Quasi-public sector organization whose objective is to promote investments in the Sultanate of Oman and promote Non-Oil Omani origin exports. OCIPED was formed by Royal Decree No. 59/96, which stipulates the main objectives and functions that OCIPED has to achieve. The Centre aims at increasing the contribution of the private sector to the investments required for development plans and promoting the export of Omani products to foreign countries.

**Mandate:**

- To work out plans for investment promotion in light of the following:
    - Concentrating on industrial, tourist, service, agricultural and fisheries projects giving priority to projects concerned with the utilization of natural resources and transfer of technology. Projects must result in added value to the national economy and provide job opportunities for Omani nationals.
    - Evaluating investment policies and plans from in light of the latest developments according to the aims of the development plans.
    - Disseminating information about the investment climate including the potentialities, facilities available and privileges obtained by projects.
    - Coordinating with agencies concerned with the economic sectors to identify available investment opportunities and preparing lists of projects that could be enlisted within the promotion plan subject to economic trends of the state.
    - Receiving investor applications and issuing relevant licenses pursuant to jurisdictions and in coordination with the concerned authorities.
    - Finalizing the procedures for investment licenses on behalf of investors with other authorities for approvals or permits beyond the jurisdictions of the Centre.
    - Recommending projects deemed important to national economy by the Centre to local & foreign financing institutions.

- To promote Omani product export to foreign markets by:
    - Determining the Omani export oriented products.
    - Conducting market studies required for the determination of the target international markets for Omani products.
    - Developing Omani products and upgrading their quality by providing support for exports.
    - Suggesting export promotion related policies.
    - Organizing specialized exhibitions in the Sultanate & abroad.

**Comments:**
Export and investment promotion are totally different activities. Providing both under one umbrella might affect strategic planning & organizational efficiency.

### *3.11. Palestine: The Palestinian Investment Promotion Agency*

The Palestinian Investment Promotion Agency (PIPA) was established in 1998 as an autonomous agency of the Palestinian Authority (PA), pursuant to the promulgation of the Investment Promotion Law. The law not only established PIPA, but it provided the bylaws by which PIPA would operate.

A One-Stop-Shop exists to assist investors in: licensing their projects, acquiring permits, obtaining incentives and income tax exemptions.

**Mandate:**
To build a better future for all Palestinians by providing constantly improved customer service to foreign and domestic investors, by utilizing an effective One-Stop-Shop, special investment incentives and state of the art technology to attract investment. It also facilitates cooperation between the private sector and the government, thereby creating and maintaining a more competitive investment environment.

PIPA's role does not end once a project receives immediate assistance. Aftercare support may not be as important for more economically stable countries around the world, but PIPA views this function as key.

**Comments:**
Despite political instability, PIPA tried to achieve World Association of Investment Promotion Agencies' (WAIPA) key characteristics for an effective IPA. This includes:

- Private Sector Participation – 40% of PIPA's voting board members are drawn from the Private sector.
- Political Visibility – PIPA's Board has direct access to the Council of Ministers.
- Autonomy – PIPA is an autonomous agency with legal authority in respect of any obligation, right, or legal act.

### *3.12. Saudi Arabia: SAGIA*

SAGIA was created by the Government of Saudi Arabia in April 2000, when it announced a new Foreign Investment Law. SAGIA has since been working with the government and other agencies toward a Saudi development vision for the 21st century.

SAGIA is the gateway to investment in Saudi Arabia. Its mission is to create a pro-business environment, provide comprehensive services to investors, and foster investment opportunities in energy, transportation, and knowledge-based industries.

**Mandate:**

- To act as a service organization (facilitator), supporting and providing hands-on assistance to existing and prospective investors. SAGIA aims to provide the full range of support functions, from the enquiry stage to the fulfillment of a business project.
- To act as Saudi Arabia's inward investment promotion agency. This means promoting the Kingdom as a stable, modern economy and strategic and profitable investment location. Its role is to project the Kingdom as a nation that offers a globally acceptable standard of living and a peaceful social and cultural atmosphere for people of all nationalities.
- To act as a catalyst for major changes. Its statute empowers SAGIA to recommend state policies designed to promote and enhance local and foreign investments and to propose executive plans and criteria to improve the investment climate in Saudi Arabia. SAGIA acts as an intermediary between the global community and the Saudi Government and its ministries and agencies.

### *3.13. Syria*

Syria set up an Investment Bureau under the Prime Minister. This office acts as a one-stop-shop for facilitating FDI projects, but can count on a limited staff (8 people).
Some other structures are also working in this area:

- The Ministry of Industry, representing Syria within the ANIMA programme, in charge of authorizations for industrial premises, et tutor of public companies.
- The Ministry of Economy and Foreign Trade, in charge of the economic strategy and tutor of private companies.
- The State Planning Commission (definition of priorities and national strategies)
- EU programmes such as SEBC (Syrian-European Business Centre, in charge of mise à niveau of Syrian enterprises, production of an investor road map) and ISMF (Institutional Sector Modernization Facility, in charge of public sector transformation).

**Comments:**
None of these actors can be considered an IPA empowered with legal and budgetary means for developing FDI in Syria.

### *3.14. Tunisia: The Tunisia Foreign Investment Promotion Agency*

The Tunisia Foreign Investment Promotion Agency was established in 1995 under the auspices of the Ministry for Development and International Cooperation. The agency employs 70 staff and manages a network of 6 overseas offices located in Brussels, Chicago, London, Cologne, Milan, and Paris.

FIPA also makes available to investors a range of documents and promotional media providing useful information on the economy, factor costs, investment incentives, infrastructures.

**Mandate:**
- Promote Tunisia as an investment location,
- Assist foreign investors in establishing and expanding operations in Tunisia
- Advise the Tunisian administration on measures for improving the investment environment.

**Comments:**
Prior to commencing its mission, FIPA hired international consulting agencies to carry out comparative studies of the location factors and production costs of several products so as to be able to establish a rigorous analysis of the situation of Tunisia compared with the competition.

### *3.15. Yemen: The General Investment Authority*

The General Investment Authority promotes investment in Yemen in accordance with the Investment Law No: (22) of 2002.

**Mandate:**
- Helping create new job opportunities,
- Application of advanced technology to minimize the environmental hazards
- One-stop shop to serve investors.
- Promoting, simplifying and accomplishing procedures in the shortest possible periods to encourage and attract more local, Arab and foreign investments

**Comments:**
GIA, which is a newly born IPA, does not seem to have the strategic focus or plan. One of GIA’a main activities was to prepare 34 investment opportunities for local, Arab, and international investors. This is not the job of an IPA nor is it an efficient means to spend its

> **General Comments**
>
> A. Most of MENA IPAs concentrate on image building and investor servicing
>
> B. Some MENA IPAs have the advocacy role within their official mandate
>
> C. Very few MENA IPAs recognize that investing in creating an investor friendly environment is the best tool for investment promotion.
>
> D. Many believe that no promotion at all is better than building a positive image of a negative reality
>
> E. The best means to create an investor friendly environment is through the adoption of best advocacy practices.

limited resources. GIA will do better if it concentrated more on the true functions of an IPA and conduct strategic analysis to evaluate its position in terms of image building, investor servicing and advocacy.

## *4. Catering for the needy investor*

### *4.1. Living to the standard:*

Many countries around the world have realized that attracting foreign direct investment (FDI) is essential to the process of economic development and to the prosperity of their citizens. It represents an opportunity not only to bridge the economic gap but the technological gap too. Foreign investments lay foundation for local investors, SMEs and entrepreneurs to prosper in a more efficient, market driven and professional atmosphere, consequently, enabling them to add value to their economies.

In order to formulate appropriate investment strategies and policies it's important to understand the common needs and requirements of international investors. Mr. Bill Luttrell from MIGA categorizes investor needs under three levels of importance:

1. ***Critical***
   a. Political & Social Stability
   b. Labour Costs
   c. Utilities Costs
   d. Labour Availability
   e. Utilities Reliability
2. ***Important***
   a. Real Estate
   b. Business Conditions
   c. Infrastructure
   d. Market Access
   e. Taxes
3. ***Less Important***
   a. Living Conditions

Based on the above mentioned points; policy makers in MENA countries are invited to rethink their priorities in accordance with investor needs in order to achieve higher levels of investment. Political & social stability require to be given the highest priority. To date, many MENA IPAs fail to recognize and prioritize those needs.

Government IPAs in the region are encouraged to look at investor requirements from different perspectives. Their unique ability to act as legitimate brokers between government bureaucrats and anxious investors adds to the complexity of their situation. They need to adopt systematic approaches towards solving investor problems while maintaining high levels of political vigilance through reclaiming their advocacy role.

### *4.2. Competition on a global scale:*

Competition for attracting FDI is increasing day by day. And with it increases the need for each IPA to differentiate its product from others to achieve higher levels of inward investments.

Today, there are almost 500 IPAs. Their mission is similar yet their tools vary. On the other hand, international investors share many similarities. Therefore, best international practices have become rules of thumb for many successful IPAs. Please note that although packaging could be unique; best practices remain similar all over the world.

## *5. The challenge*

### *5.1. Global*

#### 5.1.1. Competition & partnership

IPAs are springing up like mushrooms all over the world. With the increased number of IPAs; competition increases, which puts more strain on MENA IPAs. In today's world of investment promotion it's not only countries that are competing for investment but also: states, cities and even large service providers. In the state of Georgia the main power generation companies have set up their own investment promotion divisions.

Although competition is becoming more severe, the need for establishing strategic partnerships increases. Such partnerships with international organizations help MENA IPAs transfer best practices and adopt them locally. In some cases customization might be required.

Another form of strategic partnership is partnering with agencies in the region targeted by the IPA. Theses could be business associations, chambers of industry, etc.

#### 5.1.2. Benchmarking

Benchmarking is the foundation for the main activity of IPAs: that is promotion. It helps IPAs understand their competitive position in key industries, to tie into their Strategy. It also supports the IPAs case in front of potential investors especially when they are provided with focused information to potential promising locations, etc.

It gives the IPA a better position and more information when conducting its public policy advocacy role. (As will be explained later in this report)

#### 5.1.3. Differentiation

Benchmarking helps an IPA acquire more understanding of itself, its services (Products) and competition. It helps an IPA identify its weaknesses and strengths, opportunities and threats. The challenge would be to tie all of this into its activities. This way it can differentiate its services from competition.

#### 5.1.4. Branding and image building

Since many IPAs in MENA don't benchmark and differentiate their services from competition they end up giving a generic image. For example, you can see the slogan: "where east meets west" in several campaigns. Or another slogan that says: "where else to invest", the normal answer would be in 500 other locations!

These shortcomings and many more are a result of lacked benchmarking and differentiation. Good image building requires thorough research. Another important issue in image building is credibility. International investors have their own methods in verifying the truth behind a promotional campaign and unless the message is carefully prepared investors will be easily lost to competitors.

### *5.2. Regional*

#### 5.2.1. Collaboration

A general perception amongst IPAs is that they are in competition with each other. Thus, regional collaboration and cooperation is at a low level. This might be true to a certain degree. However, we believe that a big portion of this is caused by lack of information. Many IPAs fail to recognize the following:

- That sharing best practices will benefit all.
- Economic collaboration amongst IPAs will increase the collected competitiveness of the region. Thus, giving a better competitive position to each country. This becomes more apparent when resources, markets, are spread in different countries and investors need to coordinate activities in more than one country.

- Easy flow of goods, people and investments will increase the competitiveness of the region as a whole.

### *5.3. National*

#### 5.3.1. Creating an "Investor-Friendly" environment:

"For every country, no matter its size, location or level of development, attracting investment is a competitive exercise. Thus, all countries and local communities alike must be prepared to provide business with the right environment, including a transparent and predictable policy framework, if they are to be selected as the site for a new or expanded operations base. Important elements of a sound environment for foreign investors include:

- The absence of administrative measures, i.e. screening and approval requirements for foreign investments and the general absence of ownership, control or performance requirements as a condition of entry;
- More specifically, the content of national laws, such as planning regulations, corporate disclosure requirements or labour relations, must be framed in a manner that is stimulating to private investment;
- Host states should offer constitutional guarantees for the peaceful enjoyment of private property and may want to reinforce these by the conclusion of bilateral investment treaties with home governments of investors, requiring international minimum standards of treatment for foreign investors;
- While efficient and transparent customs legislation and procedures are prerequisites for entering the market, a high standard intellectual property law and vigorous enforcement enhances the chance to attract high-quality FDI. (BIAC Statement, Istanbul 2004)

#### 5.3.2. Public Policy Advocacy

Morisset and Andrews-Johnson found that "on average IPAs should devote more resources to policy advocacy activities that contribute to the improvement of the investment climate and thus generate additional investments". The use of best advocacy practices and customizing them to become compatible with local legal systems is the means to create an investor friendly environment.

A good example comes from Brazil; in 1995 it achieved a figure of USD 4.4 billion in FDI, however, and following the introduction of a new industrial property law in 1996 FDI surged up to reach USD 32.8 billion in 2000.

### 5.3.3. Channels of communication

It is important to establish strong channels of communications with all concerned government agencies. There is an apparent need to enhance communication and team building skills all over the MENA region.

### 5.3.4. Transparency

Though transparency is considered to be one of the most important factors for an international investor to take an investment decision; many MENA countries have not tackled this issue appropriately.

The following table shows the progress only the UAE accomplished a higher rank between 2001 and 2004.

| Country | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| Algeria | *** | ** | 88 | 97 |
| Bahrain | *** | ** | 27 | 34 |
| Djibouti | - | - | - | - |
| Egypt | 54 | 62 | 70 | 77 |
| Jordan | 37 | 40 | 43 | 37 |
| Kuwait | *** | ** | 35 | 44 |
| Lebanon | *** | ** | 78 | 97 |
| Libyan Arab Jamahiriya | *** | ** | 118 | 108 |
| Mauritania | *** | * | * | * |
| Morocco | *** | 52 | 70 | 77 |
| Palestine National Authority | *** | ** | 78 | 108 |
| Oman | *** | ** | 26 | 29 |
| Qatar | *** | ** | 32 | 38 |
| Saudi Arabia | *** | ** | 46 | 71 |
| Sudan | *** | ** | 106 | 122 |
| Syrian Arab Republic | *** | ** | 66 | 71 |
| Tunisia | 31 | 36 | 39 | 39 |
| United Arab Emirates | *** | ** | **37** | **29** |
| Yemen | *** | ** | 88 | 112 |
| Iraq | *** | ** | 113 | 129 |

*- For the following countries no sources were available.*
** For the following countries and territories only one source was available.*
*** For the following countries only two sources were available.*
**** For the following countries no sources were available that year.*
*Sources: transparency.org, icgg.org*

## *5.4. Organizational*

### 5.4.1. Reporting mechanism and decision making

The conceptual framework developed by Wells and Wint (1990, revised 2001) suggests that an IPA's effectiveness is influenced by its institutional structure and reporting mechanisms. An agency might be consistently more effective if it receives strong political support through direct reporting links to the highest government authority in the country.

In a World Bank report on "The Effectiveness of Promotion Agencies at attracting Foreign Direct Investment" the authors: Jacques Morisset and Kelly Andrews-Johnson found that: "Countries where the agencies have established reporting mechanisms to the highest level of policymakers (for example, the president or the prime minister) and have benefited from the support of the private sector have been systematically associated with more FDI. Such institutional links strengthen the government's commitment and reinforce the agency's credibility in the eyes of the business community."

They add: "FDI flows are significantly lower in countries where the IPA is part of a ministry instead of an autonomous body or a joint private-public institution."

### 5.4.2. Relation with the Private Sector

The effectiveness of IPAs is enhanced when the agency reports to a supervisory board that includes representatives from the private sector. The higher the number of private members; the greater IPA effectiveness. (Morisset, 2003)

### 5.4.3. Financial limitations

Promotion activities require high costs, this includes: taking care of potential investors, traveling, and providing promotional materials. It's difficult for IPAs with small budgets to fulfil their commitments effectively. Morisset and Andrews-Johnson's review of the recent international experience indicates that this financial commitment has to come principally from the government, which remains the main source of financing.

### 5.4.4. Targeting & servicing investors

Global competition necessitates that MENA IPAs focus their activities on area of competitive advantage and provide a world-class service.

## 6. Setting the scene

The study conducted by Jacques Morisset and Kelly Andrews-Johnson gave surprising results. It showed that expenditures on policy advocacy are at the top of the list of high returns, and efforts and the so-called investment-generating activities produce the smallest return per dollar spent.

### 6.1. Public policy advocacy (PPA)

Webster's New World Dictionary defines "advocacy" as advocating, speaking, or writing in support of something. An "advocate" is a person who speaks or writes in support of something. Public policy advocacy is similar; however it includes the use of several tools and tactics to influence public attitudes in support of a certain cause. It also includes research and covers the decision making process starting from policy making until implementation.

The desired outcome of PPA campaign would be to introduce, change, or cancel a certain low.

An effective public policy advocacy campaign should have a well defined: vision, mission, and goals. The mission describes how vision can become reality, while goals need to be specific, focused, and measurable. To achieve goals on short, medium and long term; action plans should be produced. Since public policy advocacy aims at bringing change; best practices need to be customized to accommodate to local legal and cultural systems in different MENA countries.

### 6.2. Objectives

Different countries might have dissimilar objectives form advocacy campaigns. In general PPA in MENA countries could have the following objectives:

- Request decision makers to introduce investor friendly rules and regulations.
- Put the demands of investors into political and policy systems.
- Advocacy deals with issues and conflicts that might otherwise be ignored.
- Involve investors in the government decision process.
- Create a space for public argument and discussion in issues related to investment.
- Suggest alternatives to solving investors' problems.

### *6.3. Research*

Acting before researching can waste time and money. Therefore, it is advisable to conduct the following before research:

- Find as many sources of information about the issue as possible. Possible sources include existing reports from other government agencies, international organizations (such MIGA, ANIMA, OECD, UNIDO, etc), regional organization, business associations, universities, investors; your staff who administer programs addressing the targeted issue; local newspapers; books; the internet.
- Research the arguments from two perspectives: those who oppose and those who support.
- Conduct surveys, opinion polls, public forums, focus groups.
- Identify supporters and resources to address the problem or issue, including investors, business association, and academic institutions and other groups that might be interested in the issue.

### *6.4. Customizing approach to local environment characteristics:*

Due to the difference between western political systems and MENA political systems IPAs should customize best practices in a way that will be applicable in their home countries. In general, we would like to suggest the following approach:

1. **Determine which agency has the authority** to recommend or pass regulations and implement and enforce the law.

2. **Identify the "point person/s" within government who are responsible for writing or revising, interpreting, and enforcing certain regulations**. Since this is an ongoing process it's important to maintain open channels of communication with those people.

3. **Develop relationships with concerned government officials and agency staff**.
Also talk to them about what is working well. Invite representatives from those agencies to meetings, conferences, and special events. Educate them about your work. Provide them with brochures, fact sheets, newsletters.

4. **Know the relevant laws and procedures governing regulations**.

5. **Monitor the media**. Watch for actions affecting investment environment in the country. You could designate someone to regularly read newspapers, magazines, the Internet and seek all available sources of information.

6. Develop an **action plan.**

7. **Develop relationships and coalitions with interested organizations.**

8. **Get broad endorsement on your comments on proposed regulations**. Discuss the proposed regulations or problems with existing regulations with a broad cross-section of investors before developing your comments on regulations. Then distribute a draft of your comments to targeted groups and individuals to get their suggestions and or endorsement. You could even request letters endorsing your comments. You can also encourage other organizations and affected individuals to develop their own comments. Include the reasoning behind your recommendations in your comments.

## *7. The way forward*

Working group members have expressed a willingness to continue their effort to utilize the regional momentum this initiative has gained. To do so, the following outputs have been proposed for consideration and action:

**Output 1:**
Create an ***inventory of "who is doing what"*** in MENA region on IPA issues.

**Output 2:**
***Creation of a web portal and establish an electronic data/information bank*** bringing together investment-related information publicly available on MENA investment issues.

**Output 3:**
***Investment Success Stories*** in MENA Region.

**Output 4:**
A ***survey of weaknesses, problems faced by MENA IPAs in developing recommendations on investment promotion***, particularly with regard to their policy advocacy functions.

**Output 5:**
***Investment Promotion Guidelines:*** Successful Practice in Building Competitive Strategies for MENA IPAs.

**Output 6:**
***Assessing incentive-based strategies to attract investment*** in the MENA region.

**Output 7:**
MENA ***Regional Investment Forum***, back to back with the ***autumn 2005*** Ministerial, on the basis of a proposal from the Business and Advisory Committee to the OECD.

**Output 8:**
***Establishment of a regional network of business organisations in MENA*** region

# ANNEX

## “Putting a whale in a swimming pool”: The Costa Rican experience *

On November 13, 1996, the US computer industry giant Intel Corp. announced plans to construct a $300 million semiconductor assembly and test plant (ATP) in Costa Rica, a plant that was to have up to 2,000 employees and within two to three years be fully manned and staffed by Costa Ricans. The announcement came as a triumph to Costa Rican authorities, and also aroused considerable interest in the broader foreign investment community.

With annual revenues of more than $25 billion, Intel is one of the world's largest and most profitable corporations. Costa Rica, meanwhile, is a tiny country, with a population of 3.5 million and only limited development in electronics and other high technology sectors. So why, and how, did Intel choose Costa Rica?

Costa Rica (like many developing countries) explicitly targeted the electronics sector as an area of high potential growth. Like other countries, it also set its sights on increasing flows of foreign investment to the country and created an investment promotion agency to attract and convince potential investors. But whereas other countries have seen industry-specific promotion efforts stagnate or stumble, Costa Rica appears to have succeeded quite brilliantly.

Thus the Intel investment provides a compelling platform to discuss how countries can gradually improve their climate for foreign investment and the design of their investment promotion strategies. Intel's decision to invest in Costa Rica serves as a rich example of how a small country with no domestic market can still lure a world-class, high technology firm. The high level of investor servicing provided by both CINDE and the Government to Intel before and after their site visit proved to be a crucial factor in the outcome.

### *Decision to Expand*

In 1971, the Intel Corporation introduced the 4004 chip, the world's first microprocessor. This introduction revolutionized the computer industry and set off the phenomenal growth that both the industry and Intel have enjoyed ever since. In 1995, the worldwide production of computers was valued at $237 billion, up 13.5% from the 1994 total. Semiconductor sales alone were valued at $123 billion and were predicted to continue growing at 20% a year between 1995 and 2000.

Essentially, microprocessors are the "brains" that drive most electronic computing functions. They are integral to the function of mainframe computers, personal computers, wireless communications, and a host of consumer electronics products. Because of their growing applicability, microprocessors are generally regarded as a key component of industrial growth — and a symbol of economic and industrial prowess. Thus, although firms from the US and Japan continue to dominate the industry, the governments of Korea, Taiwan (China), and Singapore have all actively supported the development of their home-grown semiconductor companies, and China, Ireland, Israel, and Malaysia have eagerly pursued investment from leading foreign firms. For developing countries, the semiconductor industry carries perhaps the ultimate promise of positive externalities — of jobs and technological innovation and the kind of long-term returns that have made Intel one of the most profitable companies in the world. Intel's distinctive position in the semiconductor industry has led it to pioneer an equally distinctive strategy for operations and investment. Essentially, the strategy is driven by cutting-edge technology and blistering speed. Every nine months or so, Intel builds a new plant. Nearly all of these plants are constructed to meet future, rather than existing, demand. As CEO Craig Barrett acknowledges, "We build factories two years in advance of needing them, before we have the products to run in them, and before we know the industry's going to grow."

Such optimism is rational, even required, in the fast-paced semiconductor market. For this is an industry where producers reap the bulk of their profits early, usually in the first six months following a product's introduction. During that time, manufacturers can charge up to $1,000 per chip. After six months, however, lower-cost imitations tend to exert significant downward pressure on prices, customarily pushing them toward around $200. For Intel, this basic cycle implies a constant need to innovate, and to ramp up production capacity as quickly as possible for each new generation of processor.

This logic of expansion has also led Intel to develop an impressive string of overseas facilities. By the time it began contemplating what would become an investment in Costa Rica, the company already had wafer fabrication plants in Ireland and Israel, and assembly and test plants in Malaysia, China, and the Philippines.

Early in 1996, executives at Intel decided to research sites for a new assembly and test plant. They assembled a team of functional experts, composed primarily (though not entirely) of people who had significant experience with site selection. Intel executives had already determined the precise contours of the planned investment. It was to be a plant of 400,000 square feet, employing up to 2,000 people to assemble and test the latest Pentium microprocessors. This type of plant, known as an ATP, is the second type of plant that constitutes Intel's manufacturing base. The first type, a fabrication plant (or fab) is where the heart of the microprocessor is produced. Essentially, fabs take thin layers of silicon, known as wafers, and use a highly advanced process of photo-lithography to etch layers of electronic circuitry on each eight-inch wafer. This process requires an ultra-clean environment and staggering levels of capital and technical expertise. Once the fab process has been completed, the wafers are sent to the ATP. There, the wafers are thinned to reduce internal stress, then cut into anywhere from 300 to 500 individual chips, or integrated circuits. The chips are then mounted onto a lead frame and attached to thin gold wires that will eventually connect them with the other elements of the computer. In the final stage of the manufacturing process, the chips are encapsulated in either ceramic or plastic packaging and subjected to a rigorous series of tests.

To run the new ATP as cost effectively as possible, Intel knew it had to find a low-cost yet highly trainable workforce. It would also have to find a spot where highly qualified engineers were available, and where employee turnover could reasonably be kept to a minimum.

***Underdog***

In these early days, Costa Rica was not seen as a particularly strong contender. It had gotten on the list, in fact, almost by accident. For two years, investment promotion agency CINDE (la Coalición Costarricense de Iniciativas para el Desarrollo) had been actively targeting and approaching large, US-based electronics firms. In the late 1980s, **CINDE had decided to follow a focused strategy of investment promotion, marketing itself to a specific group of potential investors, rather than spreading its fairly limited resources across a hodgepodge of ambiguous leads**. For several years, this focus had been textiles, but as Costa Rican wage levels rose and competition from lower-wage emerging markets mounted, CINDE abruptly shifted out of textiles and concentrated instead on electronics. With a high level of technical knowledge in the country, relatively low labour costs (for this industry), and an abundance of bilingual workers, Costa Rica's advantages seemed to mesh well with the needs of the growing global electronics industry. And so, ever since 1993, CINDE had been assiduously courting Intel and the other "big fish" of the electronics industry.

In November 1995, Intel at last responded with interest and invited the current director of CINDE's New York office, Armando Heilbron, to its headquarters in Santa Clara, California. Almost immediately after hearing of Intel's interest, Enrique Egloff, CINDE's CEO in Costa Rica, assigned three investment officers exclusively to the project. It was several months after the first meeting in Santa Clara, and after CINDE staff sent Intel a detailed and extensive information package that Costa Rica made it onto Intel's long list of possible investment sites along with Argentina, Brazil, Chile, China, India, Indonesia, Korea, Mexico, Puerto Rico, Singapore, Taiwan, and Thailand.

The Intel team began with basic desk research, looking for obvious reasons to exclude countries from the list. To be considered a serious contender, the country in question had to have **positive economic conditions**, an **established and reliable political system**, and a relatively **transparent operating and legal environment**. It also needed a **sufficient supply of professional and technical operators** and **a non-union work environment.**

**Countries also had to present a workable financial situation for Intel**. This was driven in large part by the cost of labour and overhead, taxation rates, tariffs, customs fees, and the ease of capital repatriation. Because all the plant's products were intended for export, tariffs and customs fees were particularly important. Given the time pressures under which Intel generally operates, the country also had to ensure that products coming from its plants could move efficiently from the plant to an international departure point and then expeditiously through customs and any other export procedures. Before investing in any country, Intel had to be assured of receiving all necessary permits within four to six months. Any delay in the permitting process could seriously compromise the project's very tight schedule.

On the basis of these rough criteria, team members slowly winnowed down their list. By the end of this process, the original list of 12 had been narrowed to four: Brazil, Chile, Costa Rica, and Mexico. During the spring of 1996, Intel's site selection team went directly to visit the countries under consideration, seeking to glean an "insider's" perspective on business conditions and state practices within each potential host. Team members conducted lengthy interviews with consulting firms, government officials and other US corporate executives. They met with accounting and law firms, ran in-depth analyses of key factors such as work force capability and waste water infrastructure, and **tried to solicit the opinions and experiences of other foreign investors.**

Costa Rica received its first visit in April. The two-day tour began with an overview presentation by CINDE, which also coordinated many of the subsequent meetings. The Intel team then spoke with representatives from Citibank to inquire about the adequacy of the country's financial infrastructure, and with executives from international accounting firms KPMG Peat Marwick, Price Waterhouse, and Ernst and Young to examine the reliability and transparency of Costa Rica's legal and financial institutions. Closed-door meetings with enthusiastic executives of DSC Communications, the largest US electronics company with operations in Costa Rica, as well as with several other manufacturers, apparently gave the Intel representatives additional confidence in the country's general business climate and its capacity to process and convert weekly flows of several million US dollars.

### *Presidential Push*

During this preliminary visit, CINDE had also arranged for the site selection team to meet with José Rossi, Costa Rica's minister of foreign trade, as well as with José María Figueres, the country's president. Since November, Figueres had been kept informed of CINDE's interaction with Intel and had continually expressed interest in helping with the project. The young, Harvard-educated Figueres, in the middle of his presidential term, was keenly aware of the potential impact Intel could have in helping to lead the country's growth. He took a strong personal interest in relations with Intel, and was a critical element in Costa Rica's eventual success. During the initial visit, he spent two and a half hours with the Intel representatives, during which he pledged to "do whatever was necessary" to make Costa Rica competitive in the race. He was engaged, enthusiastic, and energetic in his pitch and responded directly to Intel's concerns. When the team expressed doubts about the quality of the work force and the adequacy of technically trained graduates in the country, Figueres suggested that the government could create an enhanced training program to meet Intel's needs. In what would become a critical move, Figueres appointed Rossi to manage the Intel project for the Costa Rican government. CINDE would remain a key contact for Intel and a facilitator for any sub-sequent meetings or negotiations, but Rossi, a high-ranking and wellrespected government official, would serve as the central point of coordination within the Costa Rican government. Rossi impressed the visitors, who appreciated his active involvement and understanding of the firm's business needs. Rossi himself had been a businessman, running a sizable family-owned holding company before he joined the Figueres administration. He recognized the importance of speed and the need for an expedited process and clear, consistent communication from the government.

### *Areas of Concern*

Over the next several months, Intel representatives visited Costa Rica every week. There were different representatives each time, and different concerns to address, but CINDE remained the lead agency throughout the visit and negotiation period, ushering Intel executives around the country and working to find, or create, mutually acceptable solutions to each of their concerns. By July, the Costa Ricans knew that Intel's short list was down to only two contenders, themselves and Mexico. This last stage of the process was in many ways the most intense, both for Intel and for CINDE. During this time, several major concerns emerged. The first was simply Costa Rica's size, especially compared to a behemoth such as Intel. Company representatives worried that Intel would overwhelm the country and would demand an unsustainable fraction of Costa Rica's total resources. Robert Perlman, Intel's director of finance, expressed concern that Intel's investing in Costa Rica was akin to "putting a whale in a swimming pool." **Intel still saw other problems in Costa Rica: its physical and educational infrastructures were inadequate, and the financial terms of the proposed investment were less favourable than those being offered elsewhere**. To close the deal, Costa Rica had to address these problems.

### *Infrastructure*

Intel's problems with Costa Rica’s infrastructure lay primarily in the transportation sector. To meet the demands of its market, Intel's new facility would be designed to use inputs from any fabrication plant in the world and to send products, by air, to any customer. While Costa Rica’s location was very attractive in this regard, with access to California or Texas in less than three hours, Intel was worried about the frequency of flights and the capacity of San José’s airport.

Although the overall size of Intel's shipments would be small (about 18 tons/week), they needed to be divided into many batches and sent on several different flights. This was due to the insurance requirements that surrounded the transport of a cargo that was, quite literally, worth its weight in gold. Thus the volume capacity of flights into and out of San José was not as important to Intel as the number of flights and their destinations. And here Costa Rica fell short. While there were a number of daily direct flights to Los Angeles, Houston and Miami, there was only limited direct access to Europe and no direct access to the Far East.

Roads were also a source of some concern. The Intel site will be located close to the country's main international airport, along the highway linking the centre of San José with the airport. The problem did not lie with the quality of the highway, which is more than adequate; rather the access to the main road from the planned location was indirect and convoluted.

As it became clear that transportation issues could stymie the investment, CINDE and President Figueres urged the Ministry of Transportation to find some way of accommodating Intel's needs. And they did. After gathering information and meeting with Intel, the Ministry agreed to grant more licenses to foreign carriers if it were necessary to ensure an adequate number of flights. It also apparently accelerated plans for a new cargo terminal, slated to open in May 1997. On roads, the two sides struck an easy compromise. Intel donated some of its own prime land to create an access road for its facility, while the Ministry agreed to improve access to the highway by constructing an overpass ramp, and to coordinate traffic patterns and public transportation schedules to make sure suppliers and employees had easy access to the facility.

Energy proved more troublesome. Even though Intel's projected share of total energy consumption fell from original estimates of 30% to a much more manageable 5%, the plant still demanded its own substation. And this substation had to be built and funded by ICE, Costa Rica's state-owned electric company. Initially, ICE estimated that construction on the substation could not even begin before a year and a half — clearly an unsustainable schedule for Intel. To expedite matters, Intel eventually agreed to cede all of the required land to ICE and to provide funding (through an undisclosed loan arrangement) for the additional power lines and substation. It also agreed to fund a second substation to serve a neighbouring industrial park.

Meanwhile, Intel negotiated heavily with the minister of energy to secure better rates for the Intel plant. Existing rate structures included only two rates, residential and industrial, leaving Intel with prices of around $0.07 to $0.09 per kilowatt hour (kWh). For an energy-intensive facility such as an ATP, the difference between this rate and the $0.02/kWh that Mexico offered put Costa Rica at a significant disadvantage. So the Ministry worked with ICE and its National Regulatory Authority to develop a two-tier industrial rate structure, giving larger users like Intel more favourable pricing. Under the new agreement, still pending final approval, the cost of power will drop to an average of $0.05/kWh for any users consuming over 12 megawatts.

### *Financial Incentives*

Costa Rica's standard investment incentives and tax policies under the free zone system are extremely attractive, offering investors such as Intel a full exemption from taxes on profits for the first eight years of operation, and a 50% exemption for the next four years. However, at the time of the negotiations, Costa Rica still levied a 1% tax on the total assets of free zone developers. Intel was extremely unhappy about this tax, since its total cost to the company would be substantial: roughly $3 million for its proposed $300 million facility. Complicating matters was the fact that the tax law had temporarily lapsed, leaving some uncertainty as to its application, especially since Intel intended to build on a site not previously developed as a free zone.

The government decided to seek an interpretation by the attorney general, who, bearing in mind the country's new objectives of attracting high technology, capital-intensive industries, concluded that the tax did not apply to companies under free zone status.

***Education***

Intel's most pressing concern, and Costa Rica's most interesting concessions, came in the area of education. Although education levels in Costa Rica were already substantially above the norm for developing nations, the country did not have the education infrastructure to support Intel's personnel needs — for example, to train the 800 technicians the plant would require. Both Intel and Costa Rica knew that this gap had the potential to be a deal breaker.

Well aware of this threat, CINDE and the government quickly launched a program to ameliorate Intel's concerns. A team consisting of Intel human resources staff, CINDE staff, the minister of education, the minister of science and technology, and officials from national institutions of higher education was formed to identify the gaps in Costa Rica's educational system and to submit guidelines for improvement.

The team spent considerable time matching the detailed personnel requirements from Intel against the curricula of the country's technical high schools and advanced training programs. In addition, a group of four professors from the Costa Rican Institute of Technology (ITCR) and two teachers from local technical high schools made a six-week trip to Intel facilities in Arizona, New Mexico, and California. By speaking at great length to operators and technicians at the plants, they sought to understand precisely the education and skills required to support an Intel work force.

Following this review, the team submitted a detailed and extensive list of recommendations to the Ministry of Education:
ITCR would make this program available to either technical high school or academic high school graduates to update their technical skills and physics/chemistry competency on an as-needed basis.
Graduates of the certificate program and qualified graduates of technical high schools would also be able to enter an additional one-year program designed jointly by Intel and ITCR. Initially, these programs would focus on semiconductor manufacturing, although they could be extended over time to include other career tracks as well.
ITCR would provide intensive language training courses in Spanish for expatriates from Manila and the US, and English training to the first group of 50 technicians hired in Costa Rica. This is independent of the degree program and will be done directly on contract with Intel.

**Intel's Decision Process Timetable**

**Phase I – Prequalification**

- First Quarter 1996: Worldwide search to develop long list, for new $300 million ATP. April 1996: Finalize short list. Make first site visits.

**Phase II – Site Research**

- July 1996: Reduce short list to two finalists: Mexico & Costa Rica. September 1996: Negotiate in principle with both countries and select single finalist.

**Phase III – Contingent Announcement and Delivery**

- November 1996: Announce investment contingent on the completion of final approvals and permits. Land optioned but not purchased.

**Phase IV – Start-Up**

- April 1997: Start construction, detail work flow, develop staffing, and obtain supplier and vendor support. Select plant manager

Urged by CINDE and President Figueres, the Ministry of Education approved all of the team's recommendations. ITCR began almost immediately to implement the new curriculum.

In the end, Mexico, which reportedly was the front runner, was compromised by its currency crisis and a system of mandatory union rules. For Intel, union-free in all its manufacturing facilities, the presence of a Mexican union might have created a significant culture clash within the plant and even within the company. Mexican authorities offered to make an exception to the rules for Intel, as it had for other major multinational investors. Yet their very offer made Intel wary of the way business policy was formulated in Mexico and ironically helped, in part, to eliminate Mexico from consideration.

**Intel's Choice**

And thus, on November 13, 1996, Intel announced its decision to build its next assembly and test plant in Costa Rica. As is customary with Intel, the announcement was conditional: it declared that the project would be located in the chosen country only if the government delivered on the provisions of an agreed-upon contract. In Costa Rica's case, these provisions included the completion of Intel's registration in an authorized free trade zone, the awarding of a series of environmental and construction permits, and a government commitment to enhance technical curricula and training facilities at several institutions for students studying electronics.

For the next several months, various ministries, CINDE, and Intel worked to prepare the relevant documentation and finalize the arrangements of their deal. In April of 1997, construction on the new ATP began, and by early 1998 it was in operation, projecting $700 million in exports by the end of the year.

## *Lessons for Others*

What, then, are we to conclude from this success story? What lessons, if any, can be applied to other developing countries, hoping to lure other high technology firms?

Right from the start, **CINDE** did not approach Intel just because the firm was big and rich and international, but because it **understood that this firm's investment patterns had the potential to mesh nicely with Costa Rica's existing set of country characteristics**. By the time Heilbron, now CINDE's CEO had his first meeting with Intel executives, Costa Rica already had much of what Intel needed: a stable political system, a liberalized economy, an educated work force, and a developing electronics sector. This overlap was no coincidence. **Costa Rica had chosen an investment promotion strategy that fit its existing competitive strengths** and CINDE had targeted companies, including Intel that meshed with this promotion strategy. The lesson here is clear: choose targets that match your potential.

Once this target had been identified and approached, moreover, CINDE officials continued to do their homework. Even as the Intel site selection team was performing its due diligence, **CINDE staffs** were conducting their own extensive research effort. They **learned about semiconductors**, they learned about Intel, they even learned about the intricacies of Intel's particular site selection process. This enabled them to meet Intel on its own terms and to conduct negotiations with a fairly detailed knowledge of what the company needed and how the country could provide it.

At a broader level, another lesson is that general country factors matter a lot, especially for a high-profile and long-term investor such as Intel. What drew Intel to Costa Rica, and what was vital in convincing the company to invest, were the basic characteristics of Costa Rica's political and economic system. The country is a democracy; it is stable, liberal, and generally committed to economic openness and progress. **Its government's attitude toward private enterprise is basically facilitating, rather than harassing. It also has a fully transparent legal system**.

A third lesson: Throughout the site selection and negotiating process, both **CINDE and the government committee** led by José Rossi **were consistently well-prepared, well-informed, and eager to view their negotiations with Intel as a positive-sum game rather than an adversarial relationship.** Aided by the personal commitment of the country's top leadership, CINDE was able to take a lead role in orchestrating Intel's interaction with all levels of Costa Rican government and society. Coordination was absolutely key, and CINDE was given the authority and capability to coordinate. It also had an enviable position vis-à-vis both government and business. **Independent of the government, yet closely aligned with it, CINDE had an autonomy and independence of mind that were critical to its eventual success.** These are attributes that could be adopted (albeit with local modifications) by other investment promotion agencies.

A fourth lesson concerns the earliest selection phase. All the things that Costa Rica subsequently did right, all of the factors that made the country a good fit for Intel, would have been utterly irrelevant if Costa Rica had not appeared on Intel's long list of possible contenders.

So what does it take for countries that are not yet "on the map" to get there? The Costa Rica case suggests several possibilities. The first is marketing. **While glossy brochures and investment promotion offices are clearly not sufficient to generate investment, they are one way to raise awareness of a country's potential and compel investors at least to take a look.** Second, any objective publicity about a country appears exceedingly helpful. Stories of an economic boom, for instance, or a novel training program, or a successful privatization tend to catch the eyes and attention of potential investors. So do attractive tourist destinations, simply by exposing would-be investors to the virtues of a possible site. By contrast, **reports of corruption or instability or political strife are likely to keep countries far from any investor's list of possibilities.** Third, a preponderance of follow-the-leader investment suggests that **attracting the first multinational is particularly critical to a country's longer-term success**, for this investor is likely to bring not only its own capital and technology but also a dramatic ability to market the country to other investors. The first catch, therefore, is a big one, especially for a country with limited natural resources and a small domestic market. Efforts to land that catch — so long as they do not involve special deals or extralegal treatment — are almost certain to be well worth their while.

A final, more subtle, **lesson comes from the detailed concessions and accommodations that Costa Rica eventually made to Intel**. **Costa Rica did not "sell out the state."** They granted no special favours to Intel, no side deals or firm-specific concessions. But they did make major adjustments — at the airport, the schools, and the free trade zones— to accommodate Intel's needs. But in doing so, **Costa Rica was addressing legitimate problems of the company in order to secure the investment.** Undeniably, there were concessions, but they were not unreasonable or capricious. Second, all the adjustments made were beneficial to other investors — and generally good for Costa Rica's economy. Investment in technical education, investment in infrastructure, a cap on taxes in the free zones areas: all are benefits that other investors will undoubtedly appreciate as well. And they will probably bring long-term benefits to Costa Rica's own development goals.

** By Mr. Rodrigo Ortiz, Head LAC and MENA Region, Multilateral Investment Guarantee Agency - MIGA*