



INVESTMENT PROMOTION TOOLS AND THEIR CONTRIBUTION IN ATTRACTING FOREIGN DIRECT INVESTMENTS

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Abstract *This paper investigates the role of investment promotion agencies (IPAs) in attracting foreign direct investments (FDIs). FDIs represent one of the vehicles by means of which many countries can develop their economy, because FDIs are being valued as a means of promoting economic diversification, generating jobs, earning export revenue etc. The paper examines how investment promotion tools perform when approached by foreign investors during their short-listing process. There are presented some specific instruments on how well IPAs accomplish this crucial task of information provision. Increasingly, IPAs play a critical role in such strategic promotion of FDI.*

Key words:

FDI, investment promotion agency, attractiveness campaign

JEL Codes:

F23, F43

Introduction

As a consequence of the recent economic and financial crisis, global flows of foreign direct investment (FDI) decreased to a great extent. When the crisis started to ease and the world economies to recover, FDI returned which led to an awakening of the *competition for investments among host countries*.

Particularly in developing countries, FDI is considered a source of *imperatively necessary capital and jobs* by governments. However, in the 21st century, governments regard FDI as a *source of technology and know-how* as well. Policymakers have pointed out the way in which the know-how provided by foreign investors can have an impact on local companies, strengthen skills in the local workforce, and, as a result, raise the general competitiveness of their economies. *To encourage the growth of intellectual capital as well as businesses and jobs*, governments are more and more *aware of the significance of stimulating FDI*.

In order for the countries to show their interest in competing for FDI, most of them have established investment promotion agencies (IPAs) in order to make available *data with respect to business conditions and opportunities* to potential foreign investors. As long as IPAs have appropriate, correct and reasonable information and put it without difficulty at the disposal of potential investors, they decrease the risk perceptions and operation expenses of investment projects.

1. The key element in building a successful attractiveness campaign for FDI

The three elements that catch the attention of foreign investors before investing in a country are: *product, price and promotion*.

As far as FDI transaction is concerned, the *product* is represented by *the country itself as an investment site*. It goes without saying that the government cannot operate changes with respect to location, existence of natural resources, and market size, but there are other elements such as macroeconomic stability, investment regime, and physical and social infrastructure which may undergo alterations with the help of the government policy.

The second element, the *price*, is represented by *the investors' expenses related to locating and operating within the investment site*. In this respect, they deal with expenses incurred by accessing land, infrastructure and utilities, the cost of taxes and subsidies, and the administrative cost of a range of regulatory procedures. Without a doubt, foreign investors are attracted by a broad-based, transparent, non-discriminatory, and predictable regulatory framework.

The third element, the *promotion*, is represented by the *activities that spread information about or try to create an image of the investment site* and furnish services for potential foreign investors. In most cases, the purpose of the promotional activities is to draw advantage from the country's product and price.

Certain specialists claim that a country can actually make the most of a successful promotion campaign only when the product and price are appropriate. For example, in countries such as Singapore, Malaysia and Ireland which provide suitable business environments, the promotion proved to be an important supplement in *increasing or accelerating the inflow of FDI*. As well as that, as one of the most important roles of the investment promotion agencies (IPAs) may be to grow the investment climate, *promotion can facilitate getting the appropriate product and price*, therefore improving the image of the country.

It is worth mentioning that the *investment promotion agencies (IPAs)* are not the only means to attract foreign investments. In this respect the *investment code* and *the tax incentives* also play very important roles by this paper aims to provide a detailed presentation of IPAs only.

2. The need for good investment facilitation in an economy

As of 2008, the global market for foreign direct investment (FDI) has decreased by almost 40 percent from an all-time record high of US\$1.9 trillion. Nations that consider FDI an *instrument of economic development, job creation, and industrial progress* at this moment have to compete for much less, however not less than US\$1 trillion. In 2010, an exceptional fact happened, more precisely, developing and transition economies took most of this FDI, showing their rising capacity to compete worldwide.

As revealed by an analysis of 30,000 high value-added FDI projects, the investors were considerably influenced in their decision to locate in one economy or another by the *government-provided information and support*.

This fact is meant to facilitate the investment. As a rule, this is a role played by a public investment promotion agency (IPA). A study carried out by the University of Oxford has revealed that if *one dollar is spent on investment promotion this leads to an increase of FDI inflows by 189 dollars and that if 78 dollars are spent on investment promotion this creates an additional job by a foreign affiliate*.

IPAs play a crucial role as they have the ability to persuade the investors even if they seem reluctant in the beginning by means of efficient communication, carefully prepared information and outstanding customer service. As revealed by a survey of executives charged with site selection duties, 47 percent pointed out a *high chance that they would use the IPA Web site*, and 83 percent claimed they usually *make direct inquiries with IPAs* throughout the site selection procedure.

On the other hand, according to Global Investment Promotion Best Practices (GIPB) *80 percent of national IPAs prove to be unsuccessful in taking action to investors needs for information*, which result in losing important opportunities to win FDI.¹

In this respect efforts have to be made by the governments to increase *the competitiveness of their IPAs* in order to trigger greater FDI inflows.

3. Investment Promotion Agencies (IPAs)

There are nations such as Brazil, China and Russia which seem not to feel the need of a strong promotion effort in order to attract FDI. Of course, in such case, we deal with nations *with large local markets or natural resources*.

On the other hand, in case of the *smaller nations and those whose image is not very inviting* even if the investment climate may be in fact better than expected, promotion plays a crucial role in increasing inward FDI. Especially smaller countries can take full advantage from *pro-active promotion* so as to become noticeable for the potential foreign investors.

Among the most successful IPAs at attracting FDI at the international level are the Irish Investment Development Agency and Singapore Economic Development Board. Unfortunately not all the IPAs prove to live up to expectations.

This happens irrespective of the fact that a country has a good product to be made available to potential foreign investors. In such case, the government has to deal with a wide range of strategic and institutional challenges in order to set up successful IPAs.

Eventually, the key elements to be considered by the policy makers are:

- the suitable combination of *investment promotion techniques* derived from an appropriate *investment promotion plan*, and
- the *suitable organizational structure* for the investment promotion purpose.

In order to have an appropriate promotion plan, it is essential to have a clear picture of the *object of promotion* and also of the *method of promotion*.

- The object of promotion is established depending on the *assets of the country* and the *business opportunities* desired by the foreign investors. The choice related to the object of promotion is made rapidly and, as time passes, it may be reviewed and adjusted when necessary.

- As for the method of promotion, there is a combination of four elements that must work properly,

¹ World Bank Group (2012), *Global Investment Promotion Best Practices 2012*, available on https://www.wbginvestmentclimate.org/uploads/Global%20Investment%20Promotion%20Best%20Practices_web.pdf

namely: *image building, investment generation, investor servicing and policy advocacy*. These depend on the requirements of a country at a certain moment, the local and international economic environment, and resources and priorities of a government.

The moment we have a clear image of the investment promotion plan, it is essential to have an appropriate *institutional and organizational structure* of an IPA.

As there is not a generally available solution in order to develop the best possible structure, at the international level there has been established a set of principles in order for the IPA to be successful:

- An IPA must have a *proper governance mechanism*,
- An IPA should have *relationships with other entities* whose assistance is necessary in order to put its plan into practice

An IPA cannot function effectively without a solid *legal basis and clearly defined authorization*. The legal instrument used should offer its *authority, powers and control measures*. Also, it should identify its *functions and responsibilities*, external structure including *connections with the government and the private sector*, the composition and selection process of its board, *staffing* and reporting arrangements, and the way it is to be *funded*. Previous experience has revealed that the most successful IPAs are statutory bodies, and the strongest of those are set up under an act of parliament. In contrast, government decisions or decrees are regularly weaker since they can be easily overturned, abandoned or altered with government or policy changes.

4. The potential of Online Investment Promotion

An IPA's Web site is a chance to provide the best image of a country's economy. The impact provided by the Web is very valuable whether we deal with a developed or developing economy.

In spite of this well-known fact, many IPAs do not take full advantage of this opportunity, although there is evidence that progress has been made since 2009. What these sites lack is not attractiveness but the *business information* needed by foreign investors.

Almost all the IPAs worldwide are present online; even low-income and remote economies have their own Web sites. In 2012 The Global Investment Promotion Best Practices (GIPB) assessed 189 Web sites and *62 percent were considered best practice or good*. However, more than 20 percent of the IPAs were considered weak or very weak as they lacked the information that investors seek.

In order to have a so called best-practice IPA Web site, IPAs must constantly come up with *more investor-friendly means to display information*. In this respect it is essential that the visitors to be able to find the needed information in a quick and simple manner and, also, not to create confusion for the visitors. Without a convincing Web presence, IPAs could be abandoned prematurely from the site selection process. There are cases in which investors select an unappealing location but for which they have complete information in the detriment of a more attracting one.

In spite of the fact that nowadays in all regions of the world highly competitive IPA Web sites can be found, the investors seem to be more interested in those coming from *OECD countries*. In the top 10 Web sites in the world, eight of them are from OECD economies: *ABA–Invest in Austria; CzechInvest (Czech Republic); Austrade (Australia); Germany Trade and Invest; Invest in Denmark; Invest in Spain; Investment Support and Promotion Agency of Turkey; PRONicaragua (Nicaragua); Department of Investment Services (Taiwan, China); 10. Hungarian Investment and Trade Development Agency*.

As illustrated in Table 1, nowadays all regions have several IPAs with world-class Web sites.

Table 1. Top Web Site in Each Region of the world

IPA location	Region	Selected areas of best practice	Benefits to potential investors
Taiwan, China	East Asia and the Pacific	Core location data, organizational information	Makes available complete details regarding the location, and the way in which the IPA can support
Turkey	Europe and Central Asia	Quality of design, navigation	Easily-found helpful information and the sites has elements that catches the investor's attention
Nicaragua	Latin America and the Caribbean	Downloadable sector information	The user may go over the information effortlessly
Tunisia	Middle East and North Africa	Business focus, international languages	Potential investors can effortlessly use the site
Austria	OECD high-income	Sector content, promotional effectiveness	Appropriate information on sectors. Case studies show the location's strong track record

IPA location	Region	Selected areas of best practice	Benefits to potential investors
Bangladesh	South Asia	Graphic content, data fully sourced and dated	Is convincing in claiming that IPA is seriously focused on business and that information is reliable
Mauritius	Sub-Saharan Africa	Contact information, ease of use	Uncomplicated site. Unambiguous information on contact for further assistance

Source: World Bank Group (2012), *Global Investment Promotion Best Practices 2012*, available on https://www.wbginvestmentclimate.org/uploads/Global%20Investment%20Promotion%20Best%20Practices_web.pdf

As a rule, IPAs have access to all the information needed by potential foreign investors. In order for IPAs to have this information available, governments provide data and analysis with respect to *labour, infrastructure, transport, taxes, regulation, and other business-critical factors*. This information cannot be provided by the private sector, either because they do not have access to the same sources or because they find it way too expensive.

In this respect, IPAs need to find out the information sought by potential foreign investors, set up *links* with the government sources of that information, regularly gather brand new information, and present it in a way that is full, easy to get to and promotionally valuable.

Studies have revealed that IPAs that *target sectors* attract more FDI than those that do not, which is why it is so important to identify a *few sectors of main concern to national development and concentrate on them*.

In order to exemplify the above mentioned information, from the home page of Singapore's Economic Development Board, a single click will take a visitor to a micro-site for each of EDB's 20 priority sectors. Each of these micro-sites provides a promotional video, a sector profile, industry news, fact sheets, and testimonials from content investors in that sector. In addition to this, so as the visitor not to get lost navigating this wide-ranging information, there is a menu on the right-side of the micro-site and, with a single click, the visitor can get to the same information in any other priority sector.

5. The role of substantive content of IPA web sites for a successful attractiveness campaign

The assessment of the Web sites has been made taking into consideration four elements: *information architecture, design, content, and promotional effectiveness*.

As far as potential investors are concerned, the *content*, namely the *business information*, is the most important element whereas the *promotional effectiveness* seems to be less important. With

respect to *architecture and design*, these are necessary as well but not essential.

In order to have an *excellent content*, time is necessary to collect or research information referring to *the factors which influence business decisions in a location*, and, then, later maintenance from a dedicated staff member so as to keep it up to date. The information provided must include an *economic and political profile of the country*, information on *government regulations and support*, a full description of the *steps and costs to establishing and operating a business*, and possibly, most significantly, *complete sector profiles*.

At first, it is necessary to fully understand the sector-specific business opportunities and challenges for the potential investor. So as to *influence investment decisions*, IPAs must provide details related to *markets, value chains, production processes, cost drivers, industry players, relevant public policy, innovations, trends and the advantages and disadvantages in each priority sector*. In order to be regarded as a reliable partner by potential investors and to encourage them to contact IPA with real investment projects, IPAs must provide all this information.

Lately, there have been cases in which *IPA Web sites provide inviting architecture and design* but they failed to offer *content and promotional effectiveness*. Although there seems to be a trend, this proved to be totally unsuccessful as the investors seek high quality information. On the other hand, if the information is not provided in a likeable manner, the impact is low and the promotional opportunity may be lost.

The promotional effectiveness of sector content may be increased to a great extent by means of the *interactive tools*. It has been proved that marketing language is not sufficient. The information has to be clearly and succinctly presented. In this respect, it is very helpful to provide visual aids, such as maps and charts, and interactive Web features, such as databases and report generators.

6. The best practices for a successful FDI attractiveness campaign

There are cases in which IPAs market their locations online with well-presented, carefully-researched, and appropriate information that attract even those investors who otherwise would not show interest in their economy.

The competition becomes increasingly stiff, that is the reason why in order to be ready for action, IPAs should take the following measures:

- *The Web site should be the main promotional and facilitation instrument.* This is a time and money consuming means to approach the investors. For this reason it is vital to present essential information in an efficient manner bearing in mind that visiting a Web site is regularly a foreign investor's first contact with an IPA and efforts should be made in order not to be last one. Otherwise a web site may put off a potential investor without even knowing the lost opportunity.

- *The Web site should be maintained properly.* Once a web site is created, it is required experienced staff in order to update the Web site and to make the sales proposition as tempting as possible.
- *The Web site should anticipate investors' information requirements.* It is necessary to make available detailed information related to cost and quality in all key sectors.
- *The Web site should display the location online.* This includes the latest and well-sourced statistics, testimonials, news stories, and pictures so as to encourage investors that the location needs more attention.
- *The Web site should have suitable information architecture and design* in order to not to be very complicated for the investors to use and for the staff to maintain.

Table 2. The best practices for a successful FDI attractiveness campaign

Web site aspect	Best practice
Sector Information	Research significant information, and provide it by means of a convincing mix of charts, tables and text
Promotional Effectiveness	Make available lists and case studies of precedent investors. Where possible, provide a testimonial from the company, and say why the location was chosen
Core Information	Provide information related to essential aspects of the location: macro data, the labour market, infrastructure, etc.
Contact Information	Give email addresses and telephone numbers in international format, with sector contacts preferably
Clarity of Purpose	Provide only data linked to investment promotion; focus text, graphics on the location's business potential
Navigation Ease	An IPA site should be easy to use: Adopt simple top bar or side bar menus
Reading Ease	Use a conventional and professional font at medium size (e.g. Arial, Verdana) so text could be read without any effort
Credibility of Information	All information should contain references and have a reliable source
Currency of Information	Information should be kept up to date, and sources should include these dates
Web Prominence	Web sites should be easy to find through common search engines such as Google, either by organic search (preferred) or by pay-per-click ads.
Corporate Roles & Support	There should be available information on what kind of assistance IPI staff can provide to investors
Use of Graphics	Graphics should be relevant to content, attractive but not excessive, and should enhance the user experience Graphics should be applicable to content, appealing but not unnecessary, and should improve the user experience
Downloads	Providing pdf downloads of information allows users to more easily print and distribute Web site information Providing pdf downloads of information allows users to print and distribute Web site data without any difficulty

Source: World Bank Group (2012), *Global Investment Promotion Best Practices 2012*, available on https://www.wbqinvestmentclimate.org/uploads/Global%20Investment%20Promotion%20Best%20Practices_web.pdf

7. Investment promotion in Romania

As of 2015, the *Department for Foreign Investments and Public-Private Partnership* (DFIPPP) has been responsible for the promotion of FDI in Romania. This is a specialized body of the central public administration which has legal personality and is part of the apparatus of the Government.

DFIPPP represents the Government's key instrument in developing most important investment projects and Romania's "one-stop-shop" for foreign investors under the direct management of the Prime Minister, accountable for FDI promotion and attraction in Romania.

DFIPPP makes available a great variety of investor-focused and result-oriented services, in full confidentiality, reliance and total commitment, in order to make Romania the main destination of choice in the region for FDI.

DFIPPP services include as follows:

- making available general data on legal framework, investment environment, on most important business sectors and locations;
- it represents the most important interface with public authorities (central/local) in project relevant areas;
- assisting companies which take into account engaging with the Romanian market or developing their current units
- Adapting company's requirements to the local resources and prospects including identifying local providers;
- consultancy and assistance for project implementation during all phases of the decisional course of action;
- helping foreign investors with site selection and local contacts; and
- first-rate "after-care" services for companies already present on the local market.²

The site of DFIPPP, <http://dpiis.gov.ro>, provides data with respect to: market and location, Romania's scores for doing business in 2015, economic perspective, taxation, establishing a company, labour market, foreign investors' rights, investment incentives, investment opportunities and most important sectors, international relations. Further details on the opportunities of FDI in Romania are provided by <http://www.doingbusiness.ro>

8. Conclusions

Each country has its own manner of attaching importance to these IPAs in their effort to promote the country to potential foreign investors. In case in which IPAs fail to provide the expected information, foreign investors consult specialized consultancy companies.

On the other hand, there are IPAs that do everything: establish *relations with foreign investors intervene between investors and certain government ministries or even negotiate incentives with the potential foreign investors.*

However, the success of an IPA in strategic FDI promotion does not depend only on its technical capacity and positioning within the government structure, but is also related to *country's general bargaining power.* The assets of the country which influence the final decision of the potential investors are: market size; geographical location, human capital and science and technology infrastructure.

It goes without saying that the success of an IPA is directly connected to the economic development of the country. For example, in countries where the unemployment is very high, an IPA could concentrate mainly on promoting labour intensive activities, such as retail and manufacturing activities.

All things considered, it is essential to draw attention to the fact that regardless of their increasing value, *IPAs are not the only elements involved in FDI promotion.* They facilitate the mobilisation of various stakeholders, including the *private sector,* and guaranteeing consistency between a country's development aims, FDI strategy and innovation policy. The success of an IPA depends on the *scope of its activities, its political visibility, and its capacity to bring together public and private assets to tackle foreign investment.*

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