



# Enhancing Effectiveness of Investment Promotion Strategies for Developing Economies – A New Sectoral Market-Driven Approach

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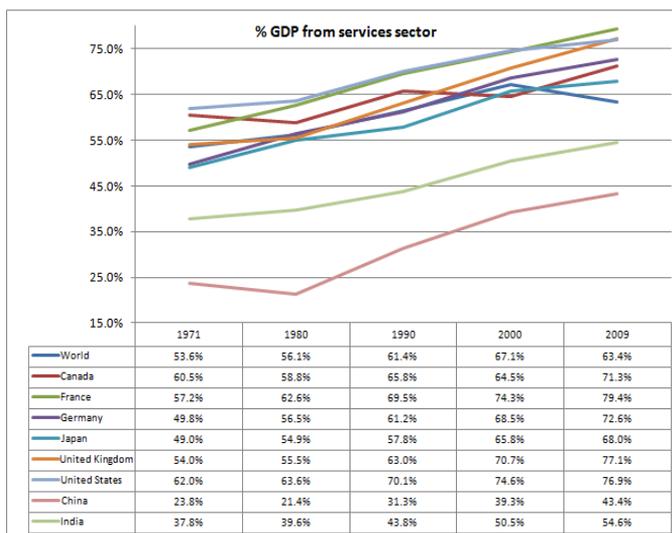
*As the world economies accelerate towards increasing the contribution of the services sector in their GDP, access to Capital is no longer the only criteria for increasing competitiveness of a nation. Given this scenario, a number of developing nations, which were traditionally engaging in performing low value-added activities like agriculture or low end manufacturing, have started demonstrating that they can also compete in knowledge-intensive activities such as software development, business process outsourcing, biotechnology or R&D etc, with right strategies and focus.*

# Introduction

The global economy over the century has passed through three key phases in its evolution from being an agrarian society to become a knowledge driven society:

Phase	Key Characteristics	Drivers for Success
<b>Agricultural Revolution</b>	The movement of capital and people was limited to a fairly small region (20 to 50 sq miles)	In the agricultural economy the success and output was based on owning arable land and deploying cheap labor.
<b>Industrial Revolution</b>	The industrial economy centered on developments in the manufacturing and creation of new tools and techniques. This enabled the movement of capital, goods and people at much higher speeds to a much broader area and geography thereby increasing the benefits.	The leadership in Industrial Economy was based on firms' and countries access to capital and automation.
<b>Knowledge &amp; Technology Revolution</b>	The knowledge based economy with its focus on service sector and value creation through effective leveraging of knowledge & technology has fundamentally altered the dynamics of global economy. Organizations seeking growth will freely invest in such geographies & countries that provide access to skilled labor pool and have a vibrant and enabling business environment	The movement of capital and people (skills) is no longer restricted, and success in knowledge economy is based on access to scalable, relevant and quality deployable skills.

The services economy now contributes to over 63% of world GDP and over 75% of GDP in developed countries. This has consistently increased over last three to four decades. The movement towards the knowledge economy presents newer opportunities for the developing countries, where the services sector still accounts for less than 50% of the GDP. The developing economies need to focus on skill development initiatives and policy action to accelerate the investment promotion activities to generate employment and attract foreign investments.



# Investment Promotion – Changing Global

## Dynamics

As the world economies accelerate towards increasing the contribution of the services sector in their GDP, access to Capital is no longer the only criteria for increasing competitiveness of a nation. Progressively, global competitiveness is going to be based on scalability and availability of relevant skills, and capital will only become an enabler to build the support infrastructure for promoting its services sector. Given this scenario, a number of developing nations, which were traditionally engaging in performing low value-added activities like agriculture or low end manufacturing, have started demonstrating that they can also compete in knowledge-intensive activities such as software development, business process outsourcing, biotechnology or R&D etc, with right strategies and focus.

Country	Average PISA* score (Composite of reading, math and science)	FDI in \$ Billion	GDP (PPP) in \$ Billion	FDI as % of GDP
United States	496	2,410	14,120	17%
France	497	1,151	2,094	55%
United Kingdom	500	1,125	2,123	53%
Germany	510	1,054	2,815	37%
Canada	527	495	1,277	39%
Japan	529	147	4,149	4%
China	577	473	8,818	5%

*PISA: OECD Programme for International Student Assessment is an internationally standardized assessment focusing on reading, math and science that was jointly developed by participating economies and administered to 15-year-olds in school*

One the key factors in development of an economy is the availability of skilled manpower in the country. PISA, an OECD program clearly indicates that most developed nations have a PISA score (an index of skill availability) higher than average. It is also believed, higher FDI can be targeted by a country by increasing the PISA score of its new work force.

A few recent trends in macro economics are shaping how foreign investment would evolve in next few years. As the world struggles through the recessionary environment, access to capital has been hindered. Further, the savings rate is getting lower in multiple countries across the globe. Fueled by a surging demand for capital, led by developing economies – getting access to finance would increasingly become difficult. Over the next 10-20 years there could potentially be a shortage of capital in developed nations because of growing infrastructure needs of the developing world.

Additionally, competition for high quality Foreign Direct Investment (FDI) is increasing, as a growing number of developing countries have adopted liberal policies towards FDI and embraced development strate-

gies based on the accumulation of scientific and technological knowledge. Most investment promotion agencies in developing countries are now placing a higher emphasis on attracting high 'quality' FDI, including knowledge intensive industries such as information and communication technologies, biotechnology or other R&D initiatives.

Most nations currently carry out their investment promotion activities through government agencies – also called as the Investment Promotion Agencies (IPAs). Institutionally IPAs are usually positioned within the ministries of trade, economy or industry, and often have offices abroad and strong links with ministries of foreign affairs to facilitate investment promotion overseas

The key objective of such government agencies is to increase the visibility of the country (or region) through marketing campaigns and to facilitate the investment process by offering tailored services to foreign corporations, both before and after the initial investment. Some of the typical activities performed by IPAs include image building, investment generation, expanding linkages between foreign investors and domestic suppliers, information dissemination and investment facilitation.

## Key Challenges faced by IPAs

The IPAs have faced a number of key challenges in the past. Being government or quasi-government, the IPAs have traditionally not had access or appreciation of the market best practices in terms of latest developments and trends, understanding of private sector and the basis of their investment decisions. This hampers their ability to effectively connect with the potential investors and facilitate advisory services.

Additionally some of the IPAs are also faced with challenge of coordinating with myriad government agencies and thus slowing down the decision making process. This increases the cost of doing investment promotion and thereby reducing the efficacy of the IPAs.

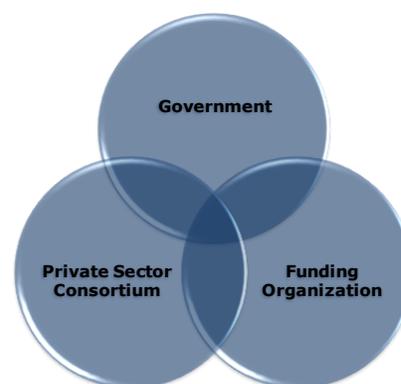
Some of the other key challenges faced by IPAs include:

- Inability to conceptualize, design and implement an unified focussed strategy
- Difficulties in catalyzing the speedy adoption of skill development strategies
- Uncoordinated branding and marketing message
- Lack of global market knowledge and best practices

## New Imperatives for the Developing Countries – Action Plan for Enhancing Investment Promotion

As developing countries effectively try and attract high quality FDI in areas such as ICT, they must move away from silo based disjointed focus on Marketing, Branding and Improvement of Business Environment. In addition to focusing on the above themes, the countries should realize the importance of Skill Development, Training and Education, and should develop an integrated approach to Investment Promotion.

The countries need to develop a coherent approach to develop skill, build supporting /enabling business environment and branding/marketing in a coordinated manner through a well defined time bound plan. Given the IPA's challenges, this integrated approach cannot be easily implemented by the IPAs in their existing structure. This calls for a new structure with strong participation from Private Sector specialists to help accelerate their investment promotion efforts.



## Organization Structure

Past experience envisages creation of an operating entity under the Public-Private Partnership (PPP) model to help define and execute on the integrated approach as outlined above. Such an entity would have equity stake from the following key stakeholders:

## Funding Organization

One of the key partners for such an organization would be a funding body, which would provide necessary working capital for the needs of the organization. This entity would have an interest in development of the country and could potentially be one of the following:

- Development organization such as World Bank, African Development Bank etc.
- Private Foundations such as Rockefeller Foundation, Ford Foundation etc, who work with developing countries on economic development.
- Private Equity players – who would have an interest in being an early player in the development of the country

## Government

Government would play an integral role in operation of such an entity. The Government participation is vital as many of the policies and incentives would be directly impacted by the work of the organization. The participation of the Government should be from the highest level, i.e. from the Office of the Prime Minister or President or alternatively it could be supported by one of the Ministries such as the Ministry for Trade or Commerce.

## Private Sector Consortium

The third key partner for the organization would be from the private sector. The private sector entity/ies would be specialized entities with experience in marketing, branding and skill development among others. These private sector entities would bring to the table access to market best practices, deep insight about private sector and its functioning as well as strong relationships with the investor community. These would typically comprise of

- A Investment Promotion Specialist firm with expertise in Marketing & Branding which can brand the country and market the country skills to markets in US/UK and developed world
- Other specialized firms depending on specific requirements such as a training company for skill development, which would assist in courseware development, training programs etc.

## Roles & Responsibilities of Partners

Partner	Roles & responsibilities
Funding Organization	<ul style="list-style-type: none"> <li>• Provide funding</li> <li>• Governance Oversight</li> <li>• Mentoring and monitoring</li> </ul>
Government	<ul style="list-style-type: none"> <li>• Provide necessary infrastructure and facilities for operation of the organization</li> <li>• Work collaboratively with the organization to define policies and incentives for investment promotion</li> <li>• Support the organization in catalyzing the investment process including working with potential investors, providing necessary support etc.</li> <li>• Provide certification and ratification services to the skill development programs initiated and developed by the organization</li> <li>• Provide senior personnel on deputation to assist the organization in day to day functioning and liaising with the government</li> </ul>
Private	<ul style="list-style-type: none"> <li>• The consortium will manage the operations on a day to day basis and will provide a team who will be on the rolls of the organization</li> <li>• Policy Advisory Support: Assist with inputs on policy formulation, market best practices etc to create an enabling business environment in the country</li> <li>• Branding and Marketing: Promotion of the country including strategy development, defining branding themes, preparation of marketing and promotional materials, organizing industry promotion events and business linkage programs etc.</li> <li>• Investment Promotion: Support the country's efforts in the areas of trade and export promotion, foreign direct investment promotion and attraction, policy and incentive development support, investor follow-up and support and other enabling activities</li> <li>• Skill Development Strategies: Designing and executing skill development strategy including training curriculum, courseware design and assessment techniques etc.</li> <li>• Capacity building: Supporting government and local industry in developing local capabilities</li> </ul>

## Revenue Model

Offerings/ Services	Description	Revenue Model
<b>Advisory services – Investment Promotion</b>	Investment Promotion (Business linkage programs, events etc). The organization would facilitate and provide advisory services to investors wanting to invest in the country. It would provide all enabling services including strategy and execution to promote investment in the country.	Cost Reimbursement + Milestone based success fees + Percentage of FDI
<b>Advisory services – Branding and Marketing</b>	Branding and Marketing – Preparation of branding theme, marketing and promotional material	On a fixed fee basis

Offerings/ Services	Description	Revenue Model
<b>Workforce Development</b>	Courseware development, Training/Skills development programs. The organization would develop courseware in line with the country's requirements and identified sectors, which would be executed through the various educational institutes of the country. It would also engage in training and skill enhancement programs.	License Fee + Percentage of fee per person trained and certi- fied
<b>Capacity Building</b>	Supporting / Developing local industry - Supporting government and local industry in developing local capabilities through work-shops, best practice inputs, business linkage etc.	Milestone based success fees+ Percentage of incremental rev- enue earned at- tributable to initia- tive

The revenue model can be structure in a fashion that 20% of it is fixed or on actual cost, 40% based on input/process and balance 40% on outcome/result based. Over time, the component of outcome based revenue can be increased.

## Anticipated Benefits

There are a number of key benefits in adopting this new approach for Investment Promotion:

- **Unified and Coordinated Strategy** – The approach due to its multi-partner structure ensures that all stakeholders are aligned and focus on the entire value chain from skill development to branding and marketing. This coordinated focus will ensure that country is able to focus on quantity as well as quality of the FDI
- **Market Driven & Effective** – The presence of the Private sector consortium, who understand the market, with access to market best practices and professional relationships ensure that the efforts are aligned to industry requirements and hence effective in addressing their requirements in a timely manner.
- **Outcome based Investment Promotion** – This approach due to the variable compensation ensures that objectives of various parties are well aligned and are tied to the success of the efforts. This will incentivize the private sector consortium to maximise their efforts.

## Conclusion

In the current economic environment, the importance of skill development cannot be overstated in attracting FDI. Given the challenges in the traditional form of attracting investments, countries need to adopt a new integrated approach to attract private sector investment with emphasis on skill development as well as branding and promotion.

In order to accomplish this, countries would need to develop an organization on a PPP model to execute on this approach. The organization comprising of Government, Funding Organizations and Private Sector entities would address all the factors required for a developing country to address the growth and competition needs. All the players with equity stake in such an organization would be well aligned towards the goal of attracting FDI. Such an organization could be piloted in certain sectors initially such as ICT and then scaled up to include other service oriented sectors.

Countries will have to take a deep look at creating such an organization to differentiate itself and move its agenda forward in the ever increasing competition for attracting FDI.

#### About the author

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