Exchange of Good Practice in Foreign Direct Investment Promotion

A study carried out under the Framework Contract ENTR/2009/033

Client: DG Enterprise & Industry

Final report – 2nd revision
Rotterdam, 4 July 2013

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Preface

The information and views set out in this report do not necessarily reflect the official opinion of the European Commission.

Neither the European Union institutions and bodies nor any person acting on their behalf may be held responsible for the use of the information contained within this report. The independent authors of this report have endeavoured to accurately reflect the views expressed by stakeholders interviewed over the course of the research for this report. However, Ecorys does do not accept any responsibility for actions taken on the basis of information presented in the report.

Executive Summary

Developing countries have attracted more FDI than developed ones for three years running
In 2011, for the third year in a row, emerging economies outperformed developed countries in attracting FDI. Over 50 percent of global FDI inflows went to developing economies, 44 percent to developed economies and 6 percent to economies in transition. In 2012, the top destinations of FDI inflows were China (USD 170 billion) and the United States (USD 140 billion), followed by Brazil (USD 48 billion), the United Kingdom (USD 47 billion), and France (USD 46 billion).

The rise of the developed world increases the number of voices promoting investment
From a European perspective, some have focussed their attention on how FDI flows into the EU fell in 2008 and 2009 and have not yet recovered to 2007 levels, but this misses a more fundamental takeaway. The rise of the developed world means more opportunities to pursue and more agencies from the developed world pursuing these opportunities.

The rise of the region also brings more participants
The rising number of actors is as much about the rise of regions as the rise of the developed world. In 2010, for example, Turkey inaugurated 26 new regional agencies, each of which would push out message to investors. Investors, in fact, make investment decisions more and more from a regional or city level perspective, which necessitates a more regional and focussed approach.

Specific targeting and new media is also changing how investors can be reached
A corollary to the rise of the number of actors pursuing investors is also the way that those investors are reached. Smart targeting means that bespoke value propositions, targeted to specific groups and sectors, are being used more and more. New media to reach those investors also multiply the messages.

Good practice in investment promotion looks to cut through this noise
More investors, more message, more media—this all creates noise, meaning that generic messages more often fail to reach investors. Investment promotion agencies have been reacting to this environment with more targeting and tailored messages.

Most of the investment promotion agencies (IPAs) we have analysed realise that it is no longer enough to talk about the general advantages of a region, but rather to recognise competitive advantages in specific sub-sectors and also the more innovative elements of the economy.

One size does not fit all: smart specialisation means understanding no single formula exists
Recognising Europe cannot dominate the world, but must rather find its role within it has partly led the European Union to push the idea “smart specialisation” as a way for regions to focus their improvement efforts on a policy level. This smart specialisation mirrors the way that IPAs have also become more focussed in how they approach international investors. While targeting sectors and producing bespoke value propositions has been proclaimed as “good practice” for the last decade, our survey results show that it has generally been in the last five years that these practices have become more wide spread across the European Union.

Regions need smart specialisation; investment promotion agencies need smart targeting
A lot has already been written on good practice for investment promotion agencies, with UNCTAD, the World Bank, and the Vale Columbia Center on International Investment being three well-known and valuable sources. These existing documents, however, are general manuals aimed at all

investment promotion agencies, and they identify good practice at its most basic and applicable level. While it can be useful for new employees of any European agency to read through these materials, they offer few new lessons for agencies promoting investment in a European environment. Investment promotion agencies need to harness the advantages offered by specific regions and sub-sectors.

Smart targeting is more regional and network oriented

Many of the manuals on investment promotion focus on agencies as independent units. This completely misses the idea that co-operation and competition co-exist. Major car manufacturers share platforms with each other, but still compete. Some investment promotion agencies have taken this lesson to heart, sharing leads between some regions while still allowing them to compete with one another to develop the best value proposition.

Networks are everywhere in investment promotion

Some of the larger and more mature IPAs we have studied have begun to increase co-operation with the regions. This has led some over the last year or two to sign Memorandums of Understanding on how to share leads and responsibilities. Cooperating agencies are still trying to find the right balance between cooperation and competition. Regions within a country—and countries within the European Union—compete for investors and will continue to do so. Still there are interesting and easily transferable good practices that can be shared with other Member States and improve the efficiency of investment promotion across national and regional agencies.

Networks in aftercare

While much of the focus on investment promotion looks at generating leads and identifying target companies, growth of jobs and new investments can often be found inside the local networks of businesses in a particular region. Good practice identified as a part of this study was for regions to focus their efforts on strengthening local networks and for national agencies to cooperate with regional partners, such as regional IPAs, and foreign representative offices in implementing aftercare programmes.

Networks in promotion: the role of new media

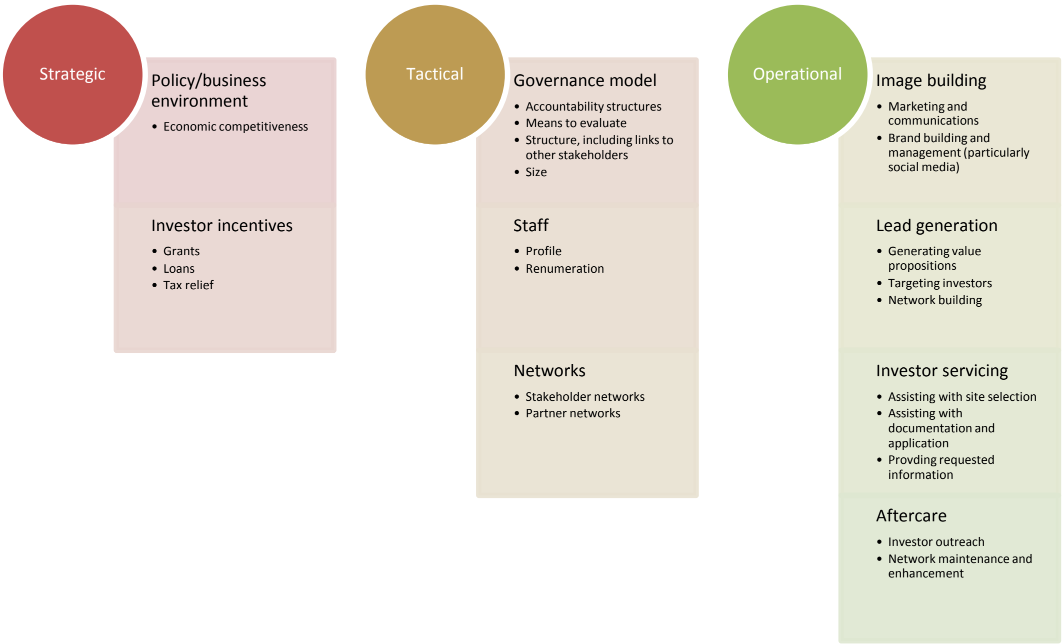
One area in which researchers have failed to keep pace is in the analysis of how new media has changed the way investment promotion agencies could reach out to investors. Materials written as recently as 2012 still indicate that a passive website is the best way to evaluate the online presence and effectiveness of agencies. Agencies in Europe experiment with engaging in social networking and other new online tools.

Finding good practice in an era of specialisation and rapidly shifting networks

Smart specialisation and smart targeting means that discovering good practice can be more challenging. The speed of change in both the economy and for investment promotion presents particular challenges for both researchers and practitioners.

A country's global competitive position, its macroeconomic climate and political stability, its regional smart specialisation policies, and the way the country organises its overall investment promotion speak directly to the way agencies operate. In trying to identify good practices we have devised a framework that takes all factors impacting on investment promotion into account.

A framework for analysing investment promotion policies



At the operational level we have identified a number of good practices, discussed below. Some of our findings on strategic and tactical level include:

Policy and business environment

Based on the survey results and the information collected in the interviews, Member States do not share a common practice to directly link FDI promotion objectives of IPAs with wider economic policy objectives. Interesting to note though are the following observations:

- IPAs in EU Member States are *a priori* responsible for marketing and promotion of FDI into their respective jurisdictions.
- A very limited number of IPAs in the EU is responsible for implementing regulations relevant to FDI, such as investor incentives programmes.
- The majority of IPAs are independent in their selection of target sectors, as well as in the setting of annual targets. At the same time, FDI target sectors set by IPAs generally overlap with national priority sectors, yet with a focus on more ‘mobile’ sectors.
- The performance of IPAs is primarily assessed on the number of projects attracted, their financial investment value and number of direct jobs created.
- Despite the fact IPAs are not measured by their success to link FDI projects to the local economy, IPAs increasingly devote attention to the presence of local value chains. In general, the presence of local value chains and clusters is becoming an important location determinant for foreign investment projects and IPAs present locally emerging clusters in their outreach to target companies. IPAs have also started researching local value chains to identify business opportunities unique for targeted companies. FDI agencies cooperate closely with cluster managers in some regions of Europe to identify ‘missing links’ in certain clusters, which could potentially be filled with skills or technology existing in foreign companies;
- City and regional agencies surveyed tend to be better integrated with other policy-makers at their level than national agencies. Regional agencies are more likely to set and even implement an economic development agenda than a national IPA.

Skills availability

In some sectors, a shortage of sufficiently sized talent pool has impeded IPAs ability to attract investors. As regular education and training programmes usually take 3-4 years to bear fruit, IPAs have started to find their own solutions to overcome immediate skills shortage problems in their region. These include the mapping of latent talent pools available[1] and providing incentives to investors to hire and train local labour force. In some regions of Germany that experience a situation of almost full employment, attracting FDI provides for a difficult situation where incoming investors end up competing with existing companies over already employed labour. Some IPAs have decided to refocus part of their targeting activities and try and attract more blue-collar jobs to the region.

Incentives

IPAs' appreciation of the use of investor incentives programmes in attracting FDI provides for a rather mixed picture with two outspoken extremes of opinions.

A number of IPAs have stated that incentives are a crucial part of the package they provide to investors, either to compensate for weaker parts of the investment climate or to direct investments to economically depressed regions. Another group of IPAs in Europe argue that ERDF money should be used to allow the EU to compete as a block against locations such as USA, BRICs, and other locations.

Governance

Previous studies have found that agencies with some private sector representation and a semi-autonomous state tend to be more effective than ones with a more public character. Most of the agencies we surveyed have a status which gives them at least some autonomy, with the majority of agencies indicating they have a semi-autonomous status.

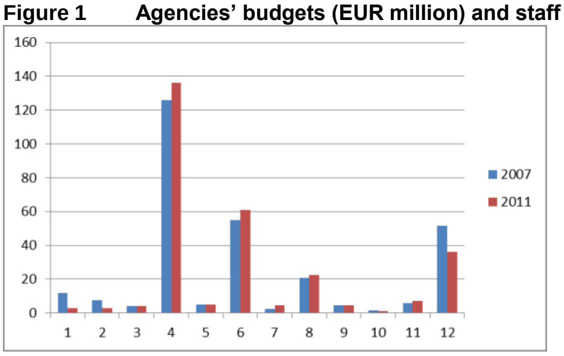
Most of the IPAs have a Board of Directors as independent advisory council and the vast majority of boards have representatives of the private sector. Four agencies in fact have more than 80 percent share of private sector representatives in the board of directors.

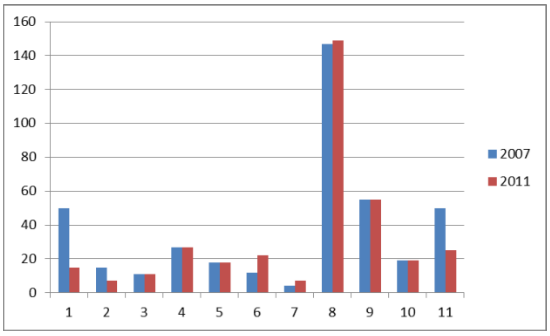
Budgets and staff

Of the 12 agencies reporting their budget figures for both 2007 and 2011, two agencies have experienced severe budget cuts of 75 and 61 percent in four years' time. One agency reported a 13 percent budget cut in 2013 compared to 2012. On the contrary, one IPA saw its budgets almost double in four years. Average budgets focused on investment promotion alone were roughly around EUR 7 million in 2011. The staff numbers among IPAs have varied from anywhere between four and 150 staff, averaging 35 full-time equivalents.

The figures below present developments of budgets and staff number over the 2007-2011 period.

Figure 1 Agencies' budgets (EUR million) and staff numbers in 2007 and 2011

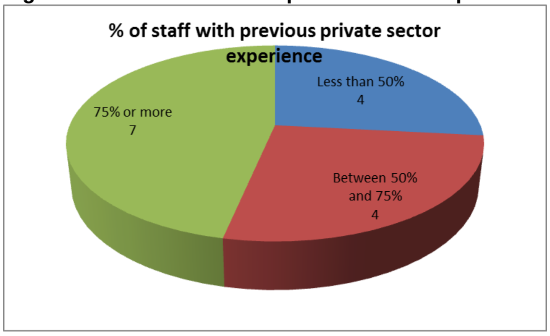


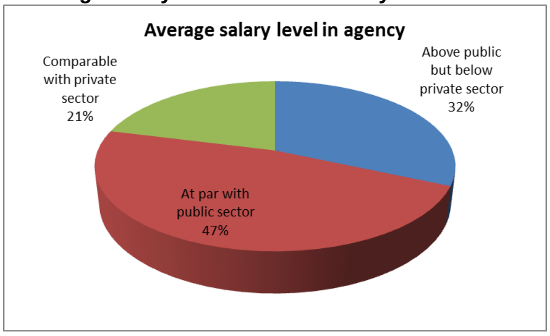


[1] See for example the Talent Map on www.investinestonia.com.

The vast majority of agencies surveyed recruit staff with previous experience in the private sector. Slightly more than half of the IPAs provide remuneration packages that exceed average public salary levels. Performance based bonuses and other incentives are used by nine of 19 agencies.

Figure 2 % of staff with private sector experience and Average salary levels in IPAs surveyed





Networks with other agencies, local stakeholders, and thought leaders

Five of the 15 national IPAs that filled out the survey questionnaire operate their own offices in the country. Independent domestic offices trying to attract foreign direct investments into their own jurisdiction are a more commonly known phenomenon in EU Member States. With a plethora of regional development agencies, Free Zones, and port development companies existing in some Member States, coordination and cooperation in following up leads, travel agendas, aftercare practices, and media campaigns have become an important additional and easily overlooked task for any IPA. The IPAs interviewed and surveyed show a rather mixed picture of how countries share –and don't share- information and intelligence on possible investment projects.

Network building is no longer about building up a network of potential investors, but also about building up a local network with local stakeholders and thought leaders. Related to social media and the now two decade-old trend for development agencies to focus on clusters of companies, we see that some agencies—particularly at the regional level—are becoming more involved in developing connections between various stakeholders. The goal here is two-fold: i) help to improve the local business environment and to connect the various elements of the business environment, and ii) to reach out to foreign companies. Aftercare is an important element of network management, and is practiced by most of the agencies surveyed. The use of advocates in thought leadership publications, webinars, and podcasts is a relatively new trend emerging.

Identifying good practice in investment promotion

Based on the survey results, the IPA interviews, the transferability among Member States of certain practice, the extent to which practices have been studied in earlier work, and taking into account results of the first Expert Meeting in Brussels on 6 March, we have identified eight good practices in investment promotion, which we have divided into three categories.

Table 1 Good practices in investment promotion

Category of good practice	Specific good practices identified
Successful targeting of FDI activities	**Strategic targeting of specific (sub)sectors and companies** **Identifying 'missing links' in domestic ecosystems and/or corporate value chains** **Targeting 'upstream' companies**
Better cooperation among investment	**Cooperation in aftercare**

Category of good practice	Specific good practices identified
promotion actors	**Lead sharing among national and other IPAs** **Aligning strategic, tactical, and operational instruments to attract FDI** • An endorsed (foreign) investment strategy • An unequivocal commitment to existing investors' needs • Incentives schemes • Branding and media attention
Working methods / internal organisation	**Managing and operating the IPA as a consultancy-driven services organisation** • A top-down imposed change of mind-set from general image building into providing free consultancy services to foreign companies who are treated as clients • Introducing performance-based bonuses and other incentives **Forming (formalised) links with the private sector** • Setting up an independent advisory board with private sector representatives as board members • Partnering with location consultants and other multipliers that have access to corporate decision makers **Using tools to measure and evaluate the success of FDI promotion agencies effectively**

In the body report we provide detailed summaries of each of these practices.

Results

For three of these practices we have run panel regression analyses to identify possible statistical correlations between these practices and higher inflows of FDI. Our results suggest that there is a positive correlation between sector targeting in investment promotion and attracting FDI. Changing an IPA's approach from carrying out general marketing and lead generation activities into becoming a services-driven consultancy organisation focusing on investor needs is also positively correlated with higher inflows of FDI.

Our analysis of the effect of developing (formalised) links with the private sector on FDI inflow suggest that being a quasi-governmental entity would have a positive effect on FDI inflows. Our results are in line with Wells and Wint (2000) findings that IPAs with quasi-government status are performing better than IPAs that are part of governmental departments.

Furthermore, our results suggest that having private sector representatives in the Board and having employees with private sector experience have a positive correlation with FDI inflows. Having average salaries in the agency higher than average public sector salary levels has a negative correlation with FDI inflows, based on the analysis carried out here.

Conclusions

1. Investment promotion in the 21st century needs to embrace a networked approach.

The demands that come from policy issues such as smart specialisation and identifying missing links to creating 'ecosystems' in their jurisdictions require further sophistication of building sector intelligence and knowledge of the dynamics in domestic economies. Best practice IPAs seem to combine their business development role with managing networks between local clusters and international companies.

2. Targeting continues to become more sophisticated.

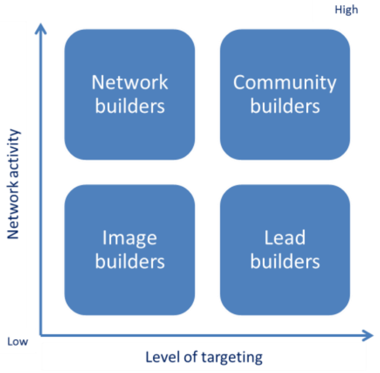
Initially countries attracted companies, which was followed later by IPAs trying to attract activities rather than companies. Under influence of global FDI market dynamics and the changing position that Europe has in global value chains, IPAs need to identify companies that want to land their R&D in the right (cluster) environment to tap into unique assets or technologies.

The nature of lead generation by the best practice IPAs thus continues to become more and more sophisticated and specific. One of the newest trends is where IPAs target ‘upstream’ start-up companies they identify to be ‘born global’ and are worth nurturing and pampering them to influence their strategic location decisions once they start undertaking cross border activities. IPAs that lag behind need to adapt along the lines of more sophisticated IPAs.

In the context of changing company behaviour in FDI over time, ‘breaking the code’ of companies is a skillset of IPAs that needs to be trained and maintained. The IPAs we have been speaking to all confirm their interest in discussing effective targeting.

3. Combining these two conclusions leads to a new classification of agencies

Given the activities and good practices that we have identified in this study, it becomes possible to classify agencies into one of four categories, depending on the level of networking that they conduct and the level of targeting. We hypothesise that those agencies that are more focussed with their targeting and engage in more networking (both online and in the local community) should prove to be the more successful agencies.



4. The size and maturity of an economy impact on resource allocation and services provided

Of course, the effectiveness of these agencies will be heavily influenced by the framework conditions under which they operate. Agencies functioning in a country such as Germany, with its advanced industrial base, relatively strong public finances, and advanced education system will have a natural advantage over smaller countries with fewer resources to bring to market.

One of the key factors influencing the effectiveness of an agency is the size and maturity of the market in which they operate. Interviews with agencies in smaller countries or on the periphery of the European Union certainly identified this as a major concern. These countries relatively spend a good portion of their budget on image building activities, stating that one of their number one concerns is to get on the map of potential investors.

The context in which these IPAs operate also influence the extent to which the good policies identified can be transferred to these Member States.

5. Investment promotion is a *marketing* activity that ties in to economic development goals but needs to focus on understanding investor needs. Attracting FDI is not to satisfy supply-driven regional economic policy objectives but to provide services to investors that aim to satisfy corporate profit maximisation strategies. The extent to which IPAs understand this principle and put into practice varies across agencies.

6. Investment promotion agencies in EU Member States have widely varying views on the need for and potentially distorting nature of incentives. While studies debate the efficacy of incentives, existing studies fail to provide much insight into the effects of incentives on a European scale, but exclusively deal at a national level.

7. Whilst 37 percent of global FDI financial flows in 2012 were M&A-related, IPAs typically do not service this type of projects until recently. However, companies in search for M&As increasingly approach IPAs for services.

8. Available labour with the necessary skills drives the investment decisions of many investment projects that locate into Europe. Whether regions have the skilled workforce necessary for a particular set of investors now and in the future is an increasingly important question for the majority of IPAs interviewed. For this reason, mapping the skills of a workforce has been picked up successfully by a handful of agencies to differentiate their regional offering from their competitors.

9. Country size and economic profile have been important determinants in the organisation of aftercare across EU Member States. This applies both to whether aftercare is taken up as an integral part of the FDI promotion cycle and to how aftercare responsibilities are shared among regional and national IPAs and other stakeholders.

10. Results of the quantitative analysis of good practices in investment promotion suggest a positive correlation between sector targeting and FDI inflows. Our results analysing the effect of developing (formalised) links with the private sector on FDI inflow also suggest a positive correlation. Finally, we found a positive correlation between running an IPA as a consultancy organisation focused on investor needs and FDI inflows.

Policy recommendations for IPAs

1. To enhance the effectiveness of the IPA, senior IPA managers would benefit from an endorsed national/regional investment strategy that goes beyond IPA's responsibilities and brings on board a broader range of decision makers.

2. Strategic targeting is a condition sine qua non in the competitive market place of FDI promotion, regardless of the economic background of the country. The results of our quantitative analysis demonstrate that targeting has been successful both in small regions and large countries, in emerging and mature economies, and by IPAs with small and sizeable budgets.

3. The basics of targeting need to be right:
    a. invest in collecting and maintaining accurate data on the region's profile and the international sectors targeted;
    b. building corporate intelligence is a key factor in successful targeting. Invest time and money in training staff on building company lists and understanding corporate behaviour;
    c. review target sectors and activities on a continuous basis. Sub sector developments and market analysts' views need to be monitored to adjust targeting strategies within selected sectors.

4. To be successful in targeting 'missing links' in locally emerging clusters, local companies, academia, cluster organisations, R&D agencies, and other stakeholders need to be open to collaboration and sharing of information. The government could have an important role to facilitate collaboration and sharing information.

5. With reduced budgets and resources in many of the IPAs interviewed targeting upstream companies is a decision that needs to be taken with care. The high pressure on research capabilities, sector knowledge, communication skills, and management information systems requires strong management control, monitoring mechanisms, and political stakeholders that understand the long lead times to generate success.

6. Transforming an IPA into a services-driven organisation is likely to be one of the most effective measures to be a successful IPA, even though it will yield limited success in the short-run and requires time and a new skill sets.

7. Aftercare is a cost-effective activity which deserves a structured and regular approach. Among the IPAs interviewed, estimates of the share of reinvestments and expansion vary between 40 to up to 75 percent of total annual FDI inflows. Aftercare also allows IPAs and governments to make use of these long and established relationships both to determine their strategies to overcome the economic crisis and to signal to corporate headquarters and potential investors that the region is a good place to invest.

8. Consider regular client satisfaction surveys among new companies on the quality of assistance they received and the value that the company felt the IPA gave. The survey can then also be used to evaluate staff performance;

9. As IPAs engage in networking and cluster building, it is worth considering how to measure IPA's success in support of building locally emerging clusters.

1 Background to this study

Over the last 15 years, investment promotion has become more competitive and complicated. A growing number of locations worldwide succeed in attracting FDI projects and the traditionally dominant position of EU Member States in attracting FDI inflows is shifting. Globalisation, outsourcing, internal consolidation strategies, mergers and acquisitions, and new investors from emerging economies have all led to an increased number of ways to approach the “market” of foreign investors.

As investor strategies and global market developments move fast, traditional promotion campaigns and marketing efforts with brochures, Investment Guides and road shows are rendered less effective. Across Europe organisations that have typically been involved with investment attraction, such as Investment Promotion Agencies (IPAs) and Regional Development Agencies (RDAs) have had to adjust to this changing environment. The need to adjust also comes at a time when IPAs have experienced severe budget cuts.

At the Enterprise Policy Group (EPG) meeting in 2011, DG Enterprise and Industry proposed to organise a new exchange of good practice in policy areas relevant to industrial competitiveness. The exchange aims primarily to support policy development and learning among Member States. Based on the preferences of EPG members, a first exchange focussed on policy practices promoting the industrial uptake and deployment of Key Enabling Technologies (KETs).

The second exchange of information and good practices concentrates on the policies that deal with the promotion of Foreign Direct Investment (FDI). The main objective of this study is to evaluate the effectiveness of Member States programmes to facilitate and promote FDI, in particular the work of Investment Promotion Agencies, and for Member States to exchange good practices in investment promotion. One of the outcomes of this study would be to arrive at a catalogue of successful policies in EU Member States.

This final report discusses the research we have carried out and presents our analysis of good practices in investment promotion in 19 Member States and eight regions in these Member States.

After elaborating in Chapter 2 on the changing context in which investment promotion is taking place, we have organised our study in two parallel lines of activities:

Analysing and sharing investment promotion practices among EU Member States’ IPAs and RDAs. The goal here has been to understand the challenges that IPAs and RDAs are facing, and to see if we can identify good practice that have been effective and that can be shared across the EU. We have developed a framework of investment promotion actions at strategic, tactical, and operational level and elaborate on policies implemented by Member States at these three levels. The results of this analysis are presented in Chapters 3-4.

Analysing the effectiveness of investment promotion policies. The goal here has been to arrive at quantitative results linking changes in FDI flows and actions taken by investment promotion agencies. Based on the discussions in the previous chapters, we identify good practices in investment promotion and carry out a quantitative analysis. We also discuss conditions for these practices to be transferred across other Member States. Chapter 5 presents the results of this analysis.

2 A changing context for FDI promotion

Between 1995 and 2011 global FDI inflows have increased fivefold from over USD 300 billion to over USD 1,500 billion.[2] The real annual growth rate of FDI in the same period averaged eight percent; significantly higher than the real growth of trade in goods and services. Despite continuous debates about the exact impact of FDI on regional development and local economic growth[3], a strong belief with policy-makers about the positive impact of FDI on employment, innovation, and the internationalisation of local firms leads locations around the world to take actions to attract FDI.

When talking about FDI and FDI promotion, it is important to recognise that any FDI project has two parties involved (with decision making power): an investor and a specific location. For most FDI projects the investor is the lead decision maker and FDI promotion actions by local authorities do not play a major role in the decision process. This most often is the case in expansion projects, M&A decisions (brownfield) and joint venture projects[4]. In those projects where foreign investors and FDI promotion authorities do actively interact, the challenge is to find a good match between the expectations of each party: the investor looking at the location from a business perspective (how can the location contribute to my own strategic long term goals?), and the location looking at the investor from a regional development point of view (how can the investor contribute to economic development in my region?). Most FDI promotion activities have a specific focus on attracting greenfield investments.

Over the last two decades the world economy has changed considerably. Across the globe, new (and major) economic markets are developing. Reduced barriers to trade, harmonisation of standards, but also technological developments in ICT have led to a growing integration of the economy worldwide. These developments have changed the context for FDI promotion in Europe in different ways:

- A growing number of locations worldwide succeed in attracting FDI projects, though also with a growing number of opportunities to pursue. Compared to 15 years ago the level of competition to attract new FDI projects has increased significantly for European locations, both in terms of competing locations and in terms of number of regions actively promotion to attraction of FDI;
- Global economic and financial integration has led international organisations to reconfigure their global network of activities. Within these global networks the position of Europe has changed;
- Europe’s internal economic and policy framework has changed, not only influencing the attractiveness of Europe for investors but also influencing the expectations of local authorities vis-à-vis foreign investors.

The following paragraphs will discuss this changing environment for FDI promotion in more detail.

2.1 Recent shifts in FDI flows

2.1.1 Regional shift

FDI inflows

Global FDI exploded over the last two decades. Whereas in 1990 global FDI stock equalled around USD 2,000 billion, this has risen to over USD 20,000 billion by 2011. Similarly, annual FDI inflows have seen a sharp increase. In 1990 the total of global FDI inflows was equal to around USD 200

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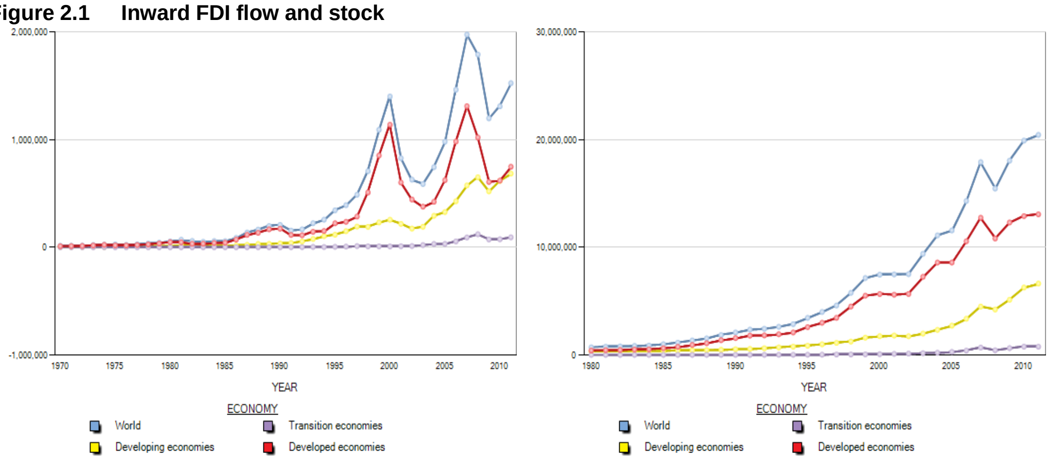
2 UNCTAD, www.unctad.org/wir

3 See e.g. Blomström and Kokko, 1998; Vissak and Roolaht, 2005; Pessoa, 2007; Fan 2002.

4 We do remark that other (investment) policy measures can play a role in attracting these types of projects.

billion, while in 2011 this was sevenfold (UNCTAD[5]). After a sharp fall in 2008-2009 due to the worldwide economic crisis, FDI inflows increased again by 16 percent in 2011.

Figure 2.1 Inward FDI flow and stock



Source: UNCTAD

In 2011, for the third year in a row, emerging economies outperformed developed countries in attracting FDI. Over 50 percent of global FDI inflows went to developing economies, 44 percent to developed economies and 6 percent to economies in transition (UNCTAD World Investment Report, 2012). In 2012, top destinations of FDI inflows are China (USD 170 billion) and the US (USD 140 billion), followed by Brazil (USD 48 billion), UK (USD 47 billion) and France (USD 46 billion).[6] In total these five countries are responsible for 45 percent of the global FDI inflows (UNCTAD WIR2012).

Concentrating on Europe, the EU still takes up an important share of the global FDI inflow share, but as developing countries show strong economic growth and thus provide new investment opportunities the relative share of the EU in global FDI inflow has diminished over time. Whereas the EU attracted over 45 percent of global FDI inflows in 1990, it declined to 27 percent in 2011. Nevertheless, according to the European Competitiveness Report 2012 the EU remains an attractive destination for FDI due to:

- The size of the EU market;
- The openness to FDI; and
- The deep economic integration among EU member states.

Looking at the origin of FDI inflows into the EU, before 2010 the share of intra-EU FDI inflows was dominant (2/3 intra-EU versus 1/3 extra-EU). Due to the recession, intra-EU FDI has declined. This in combination with the relatively good performance of the emerging economies has increased the share of extra-EU FDI inflows.

FDI inflow in the EU from non-EU countries is quite concentrated. The US and EFTA members (mainly Switzerland) take up about 50 percent of the share. More recently though, there has been a decline in FDI from Switzerland due to the crisis, and from Japan. US FDI inflows were however not affected by the crisis. The share of FDI inflows in the EU originating from developing and transition economies is increasing with the largest share originating from Western Asia (European Competitiveness Report 2012).

5 www.unctad.org/wir

6 Figures based on the first nine months of 2012, cfr http://www.oecd.org/daf/internationalinvestment/FDI%20in%20figures.pdf

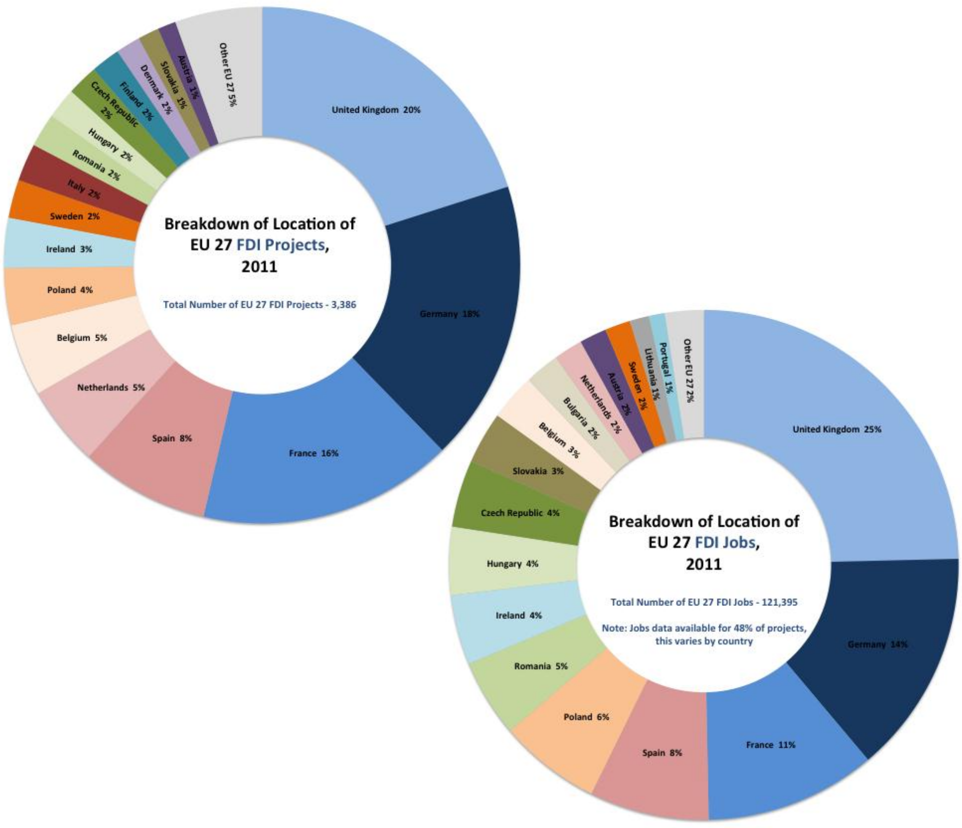
FDI projects and jobs into the European Union

From an FDI promotion point of view, macroeconomic data on FDI inflow does not necessarily provide insight into a country's performance in proactively attracting FDI. For example, large scale investments into utilities or natural resource extraction projects do not necessarily require substantial inputs from an IPA to be attracted into a country. IPAs typically focus on the more 'footloose' activities of multinational companies, with the purpose to create jobs and bring other (socio-)economic benefits to the region they are promoting.

Ernst & Young's European Investment Monitor (EIM), produced by Oxford Intelligence, tracks greenfield projects and expansions realised in Europe and excludes capital inflows where investment promotion activities typically do not play a role [7]. EIM tracks inward investments into countries, regions, and cities based on *project* level data. While this limits its ability to consistently track investment values (as either companies would hesitate to share this type of information or approaches to calculate FDI values differ among regions), it does allow comparing the performance of regions –and not just countries- in attracting FDI based on the total number of projects attracted.

In 2011 EU Member States attracted 3,386 FDI projects and more than 121,395 new jobs to the region. The region's three largest economies of Germany, France and the United Kingdom accounted for 54 percent of FDI projects and 50 percent of FDI jobs in the region.

Figure 2.2 Breakdown of Location of FDI Projects & Jobs, 2011



Source. European Investment Monitor

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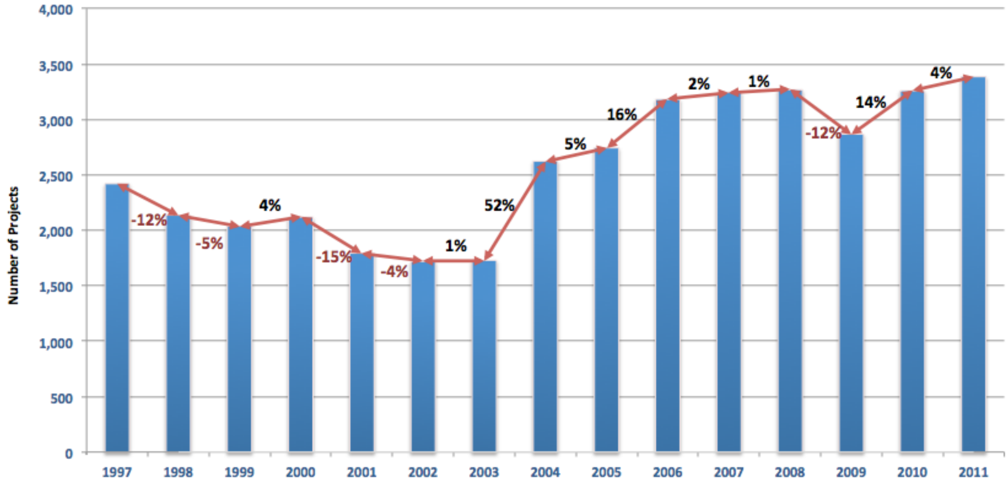
[7] EIM excludes the following categories of investment projects:

- Mergers and acquisitions or joint ventures (unless these result in new facilities, new jobs created);
- Licence agreements;
- Retail and leisure facilities, hotels and real estate investments;
- Utility facilities including telecommunications networks, airports, ports or other fixed infrastructure investments;
- Extraction activities (ores, minerals or fuels);
- Portfolio investments (i.e. pensions, insurance and financial funds);
- Factory / production replacement investments (e.g. a new machine replacing an old one, but not creating any new employment); and
- Not-for-profit organisations (e.g. charitable foundations, trade associations, governmental bodies)

Looking at the breakdown of GDP, population, and FDI projects and jobs in the EU 27 countries, a number of differences stand out, the most notable being the United Kingdom and Italy. The United Kingdom accounted for 13.8 percent of the region's GDP and 12.4 percent of the region's population in 2011, compared with an FDI market share of 20.1 percent of the region's projects and 24.6 percent of the region's jobs. Italy accounted for 12.5 percent of the region's GDP and 12.1 percent of the region's population in 2011, compared with FDI market share of 2.4 percent of the region's projects and 0.2 percent of the region's jobs.

As shown in Figure 2.3, after a sharp dip in 2009, FDI into the EU 27 countries returned to growth in 2010 and 2011. In 2009, FDI projects in the region fell by 12 percent year-on-year; while FDI jobs fell by 28 percent year-on-year. In 2010, FDI projects in the region grew by 12 percent and jobs by 25 percent, recovering from the fall experienced in 2009. In 2011, FDI projects grew by a further 4 percent and jobs by 7 percent.

Figure 2.3 FDI Projects into EU 27 Countries, 1997 - 2011

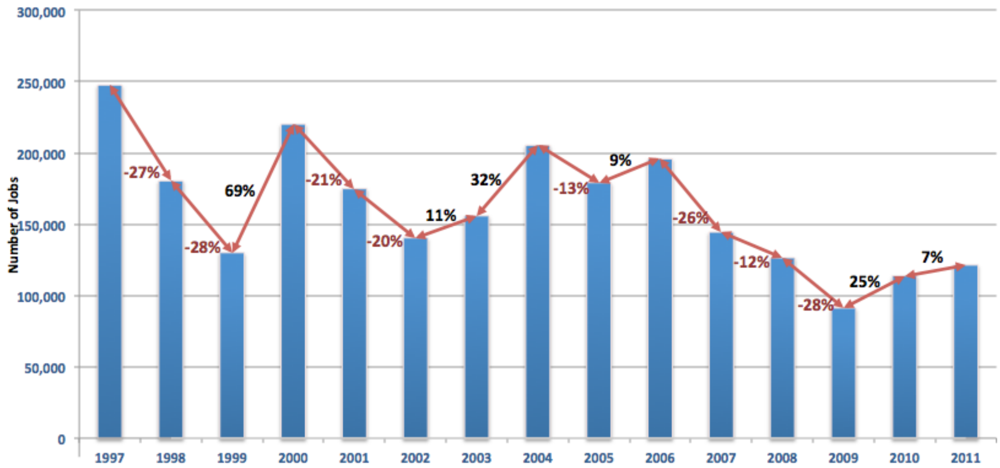


Source. European Investment Monitor

In 2011, the volume of FDI projects into the EU 27 Countries reached a record high since recording of FDI projects commenced in 1997.

As shown in Figure 2.4, since 1997, the number of FDI jobs recorded has been more volatile, in part reflecting the confidential nature of company's job strategies. However, there is a notable downward trend in the number of FDI jobs locating in the region between 1997 and 2011. This downward trend can partly be explained by the sectoral shift in FDI projects that has been taking place over time (see also Section 2.1.2).

Figure 2.4 FDI Jobs into EU 27 Countries, 1997 - 2011



Source. European Investment Monitor [8]

Growth in the number of projects with a concomitant decline in the average number of jobs created per project can be explained in the shift in the types of industries making investments. Activities around manufacturing as an activity create far more jobs than other activities. Data from the European Investment Monitor shows that the number of projects in manufacturing has dropped, which have been replaced by service sector projects, such as sales & marketing activities that have increased.[9]

In terms of FDI market share in 2011, there are some notable findings:

- The top three countries by FDI project and FDI jobs market share are all western European countries, namely the United Kingdom, Germany, and France. Spain is ranked fourth as first southern European country[10].
- The bottom four countries by FDI project and FDI jobs market share are all central, eastern or southern Europe, namely Latvia, Greece, Cyprus and Malta.
- Outside of the top and bottom four countries, the middle tier consists of 19 countries throughout the EU 27 region.
- Within the middle tier of countries the majority of western & northern European countries secured a higher market share of projects than jobs. Alternatively, the majority of central, eastern and southern European countries secured a higher market share of jobs than projects.

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8 Jobs data is available for 60 percent of projects; this varies by year.

9 The data also demonstrate that manufacturing that enters the European Union is moving east to EU-10 countries.

10 It is noteworthy that a different picture emerges when looking at FDI value in USD. The top 5 EU countries of FDI inward stock by 2011 were UK, France, Belgium, Germany, and Spain. These data, however, include mergers and acquisitions, rather than strictly greenfield projects and expansions which are the type of FDI investment promotion activities typically focus on. According to UNCTAD (WIR 2012), UK attracted the highest USD value in FDI greenfield projects in 2011, followed by Romania, Germany, and Poland. Spain and France rank 5th and 6th respectively.

Table 2.1 Segmentation of Countries based on Market Share & Ranking

Top 4 Countries by market share & ranking	Middle Tier
	Rankings & market share higher by projects than jobs
Majority Western & Northern Europe	Majority Western & Northern Europe
France Germany United Kingdom Spain	Belgium Denmark Finland Luxembourg Netherlands Sweden Italy

Middle Tier	Bottom 4 Countries by market share & ranking
Rankings & market share higher by jobs than projects	
Majority Central, Eastern or Southern Europe	All Central, Eastern or Southern Europe
Bulgaria Czech Republic Estonia * Hungary Lithuania Poland Portugal Romania Slovakia Slovenia Austria Ireland	Cyprus Greece Latvia Malta

*Ranking higher by jobs, market share marginally lower by jobs

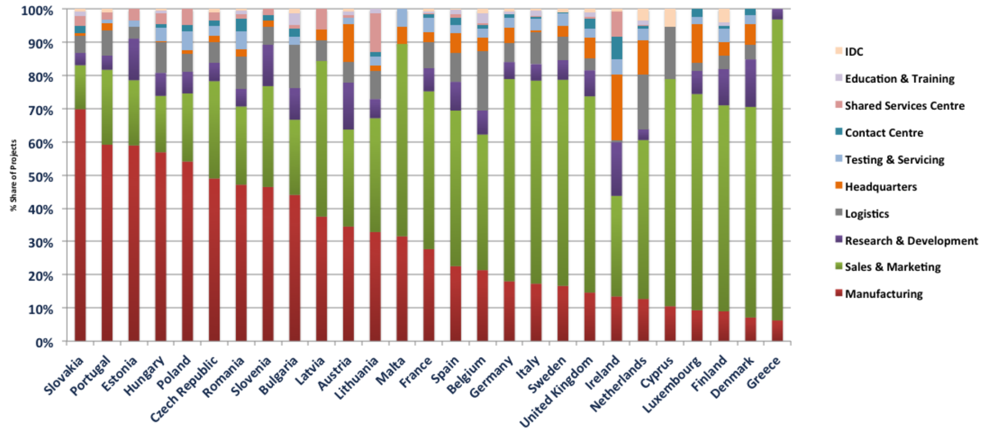
■ Western / Northern European countries
■ Central / Eastern / Southern European countries

Source. European Investment Monitor, own calculations[11]

The following figures break down further activities by country for both projects and jobs to give further clarity on labour intensity and the profile of investment into specific countries and regions within Europe.

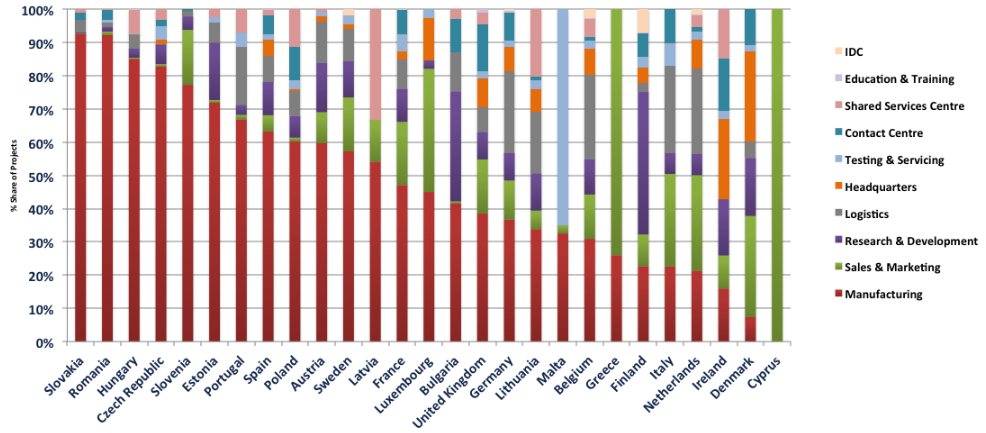
[11] Jobs data is available for 48 percent of projects; this varies by country.

Figure 2.5 Breakdown of project activity based on number of projects, 2009-2011



Source. European Investment Monitor

Figure 2.6 Breakdown of project activity based on number of jobs, 2009-2011

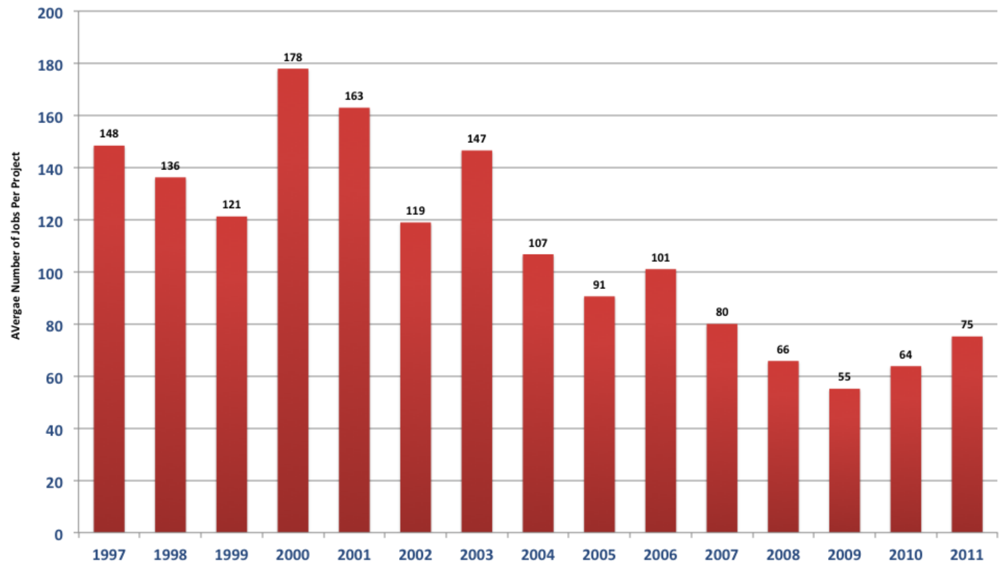


Source. European Investment Monitor

FDI project size in number of jobs

Examining the average number of jobs created per project (project size / labour intensity), the top eight countries by project size in 2009 – 2011 were all central, eastern or southern European countries, namely Romania, Slovakia, Hungary, Bulgaria, Czech Republic, Poland, Spain, Portugal and Malta.

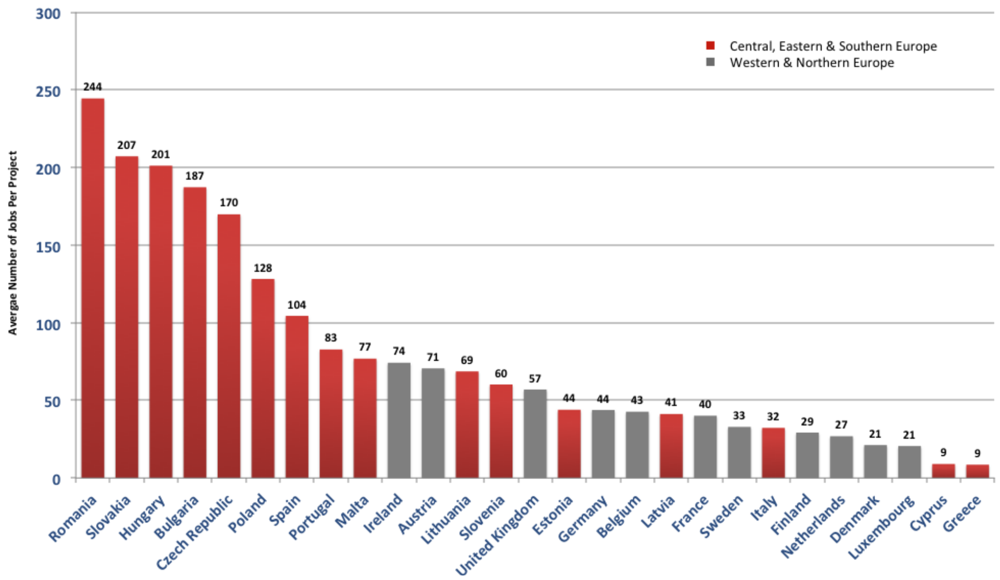
Figure 2.7 Average Project Size in Jobs of FDI Projects into EU-27 Countries, 1997-2011



Source. European Investment Monitor

The top six sectors, by project size in 2009 – 2011 were Automotive Assembly, Retail, Computers, Other Transport Equipment, Automotive Components and Air Transport.

Figure 2.8 Average project size of FDI Projects by Country, 2009-2011



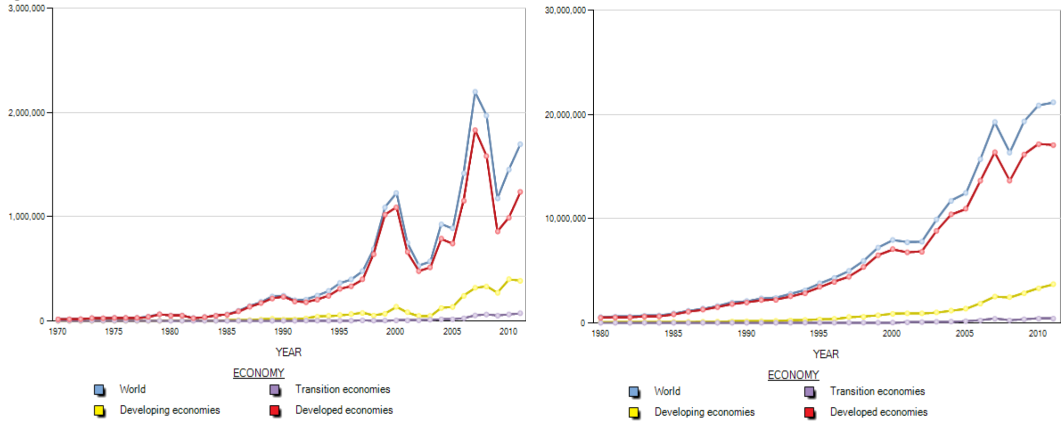
Source. European Investment Monitor

FDI outflows

The major investors behind global FDI outflows come from developed economies. In 2011 27 percent of the global FDI outflows came from emerging economies and 63 percent from developed economies (UNCTAD World Investment Report, 2012). The number one in FDI outflows is the US (USD 281 billion), followed by Japan (USD 88 billion), the UK (USD 78 billion), Germany (USD 55 billion), France (USD 47 billion) and China (USD 42 billion).[12] Nevertheless, also here a growing importance of emerging economies can be observed, especially since 2005.

[12] Figures based on the first nine months of 2012, cfr http://www.oecd.org/daf/internationalinvestment/FDI%20in%20figures.pdf

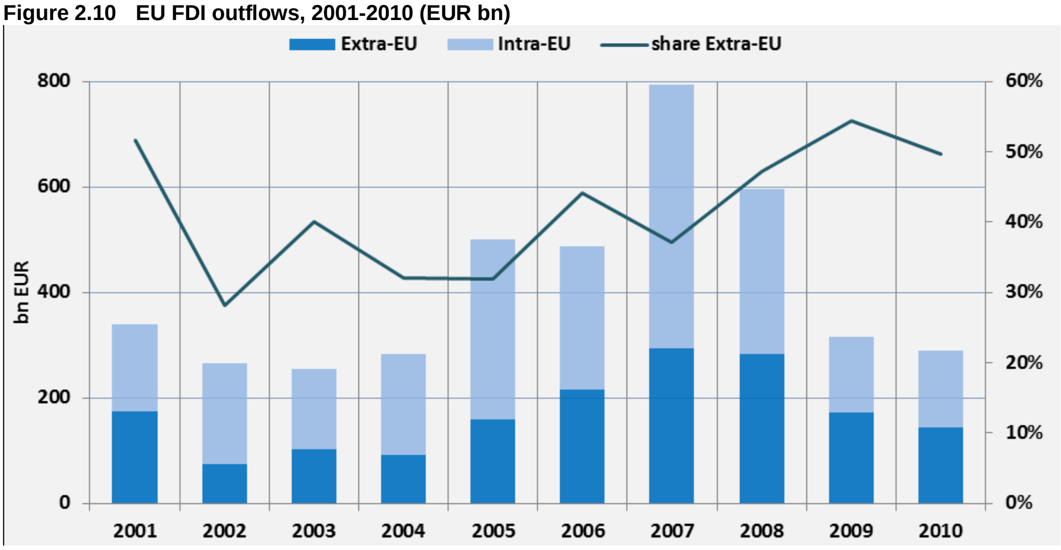
Figure 2.9 Outward FDI flow and stock



Source: UNCTAD

At global level, the EU is the largest direct investor, typically accounting for more than half of global FDI outflows (intra-EU flows included). Overall, the amount and value of FDI has decreased though. As with the FDI inflows, a shift in importance from intra-EU towards extra-EU outflows has occurred. This is mainly due to the fast growing emerging markets outside the EU and the membership of the EU10 countries.

Figure 2.10 EU FDI outflows, 2001-2010 (EUR bn)



Note: EU is EU-25 for 2001-2003 and EU-27 for 2004-2010. EU flows calculated as the sum of EU Member States. Intra-EU flows to Luxembourg are adjusted downwards by 90% in order to exclude activities of Special Purpose Enterprises (SPEs). Extra-EU flows exclude offshore centres (Guernsey, Jersey, Isle of Man, Gibraltar, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Netherlands Antilles).

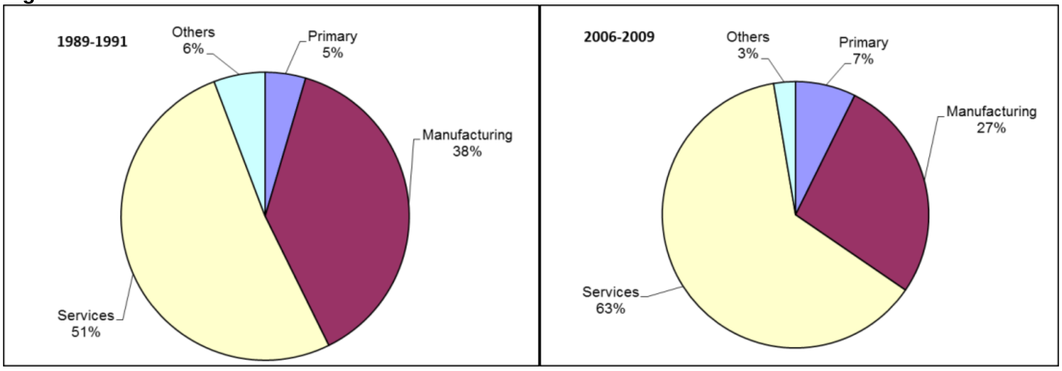
Source: European Competitiveness Report 2012, wiiw calculations

The predominant host countries of EU FDI outflows are the US and EFTA countries. These two regions accounted for more than half of the total extra-EU outflows in the period 2008-2010. But that share is declining. A shift towards emerging economies such as Asia and Latin America has taken place (Russia, Brazil, Mexico, China, Turkey, India); economies which show a higher growth potential. 97 percent of the total EU FDI outflow occurs from the EU-15, while only 3 percent comes from the newest EU member states (EU-12). FDI flows from the EU-12 show a different pattern than those from EU-15. EU-12 intra-EU FDI flows mainly focus on Poland, Hungary and Czech Republic. Extra-EU FDI flows originating from the EU-12 go to Croatia, Ukraine, Serbia and Russia, with a small part directed towards Asia (European Competitiveness Report 2012).

2.1.2 Shift in sectoral distribution

In terms of sectoral distribution of global FDI flows, services clearly have gained importance over the last two decades, reaching on average 63 percent of total FDI outflows in the period 2006-2009 compared to 51 percent in 1989-1991. Manufacturing decreased its relative share, from 38 percent in the period 1989-1991 to 27 percent in the period 2006-2009.

Figure 2.11 Global FDI outflows – evolution of sectoral distribution

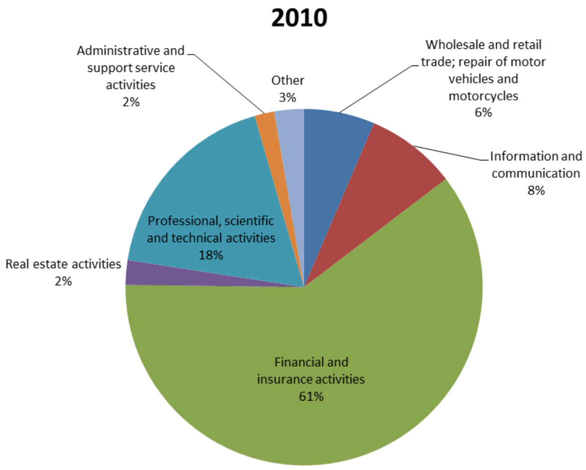


Source. Sleuwaegen and Boiardi (2011), based on UNCTAD World Investment Report 2011

However, if we look at recent trends, in 2010, services decreased in their relative importance, following the negative trend that started in 2009. Among services, the financial sector was hit hard by the crisis, and therefore experienced the sharpest relative decline. Financial services were not the only ones to fall. Business services as well as transportation and telecom also experienced a decrease of about eight percent in 2010. Despite the decline in financial services FDI, the financial sector did remain the most important services sector for FDI. In 2010 over 60% of outward FDI in services from the EU were related to financial and insurance activities. The high share of financial services FDI can be explained as follows:

- Investment in financial services is very mobile in comparison to investment in other sectors, and therefore shows a relatively high level of cross-border activity;
- The relative importance of financial services is partly the result of the use of special purpose entities (SPEs) for acquiring or creating foreign affiliates. If an EU manufacturing company acquires a company abroad through an SPE, the transaction will be recorded in the financial services sector and not in manufacturing; and
- The very high use of intra-company loans (which is one of the components of FDI) in the financial services sector relative to other sectors.

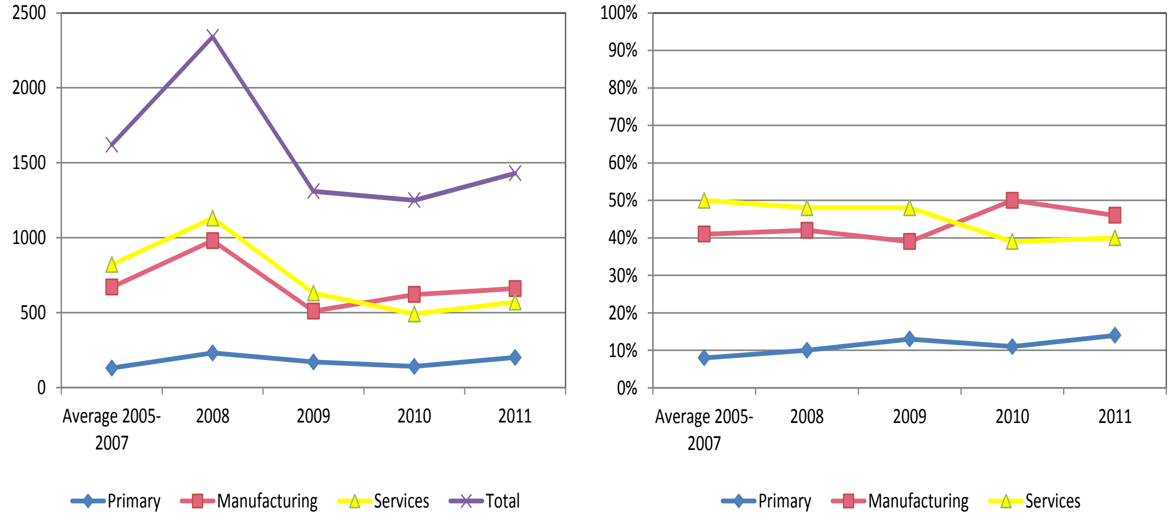
Figure 2.12 Outward FDI in services from the EU, 2010



Source: Eurostat

In 2011 services-sector FDI did rebound. It remains to be seen whether this increase is sustainable.

Figure 2.13 FDI distribution per sector (in billions of USD) and share of FDI per sector



Source: Based on figures of the UNCTAD World Investment Report 2012[13]

Consequently, in 2010, manufacturing became relatively more important for FDI, although business-cycle sensitive industries still felt the negative effects of the crisis. The value of FDI into manufacturing industries increased by 23 percent in 2010, however still remaining 10 percent below its pre-crisis level. This increase came mainly from resilient industries, like chemicals and pharmaceuticals, and from the recovery of basic sectors including food, beverages and tobacco, textile and garments and automobiles. The recovery of FDI in these industries was mainly driven by the increase in consumers' spending in rapidly developing countries (Sleuwaegen and Boiardi, 2011).

In the EU, one can observe mainly FDI inflows in manufacturing (47 percent). Investments from non-EU countries occur in chemicals (14 percent) and food (8 percent). Inward FDI in the services sector accounts for 43 percent and is mainly focused on trade and repair (20 percent), real estate (6 percent) and computer services (4 percent). R&D investments occur most frequently in manufacturing sectors (high and medium-high tech) such as the chemical and petroleum refining industry (European Competitiveness Report 2012).

FDI outflows occur mainly in the services sector (72 percent), where the financial sector and other business services take up the largest share, complemented with trade and repair (10 percent) and post and telecommunication (7 percent). Manufacturing takes up a share of 20 percent, largely based on chemicals (14 percent), metal (6 percent) and food (6 percent) (European Competitiveness Report 2012).

These figures indicate that both manufacturing and services are important sectors for EU FDI.

2.1.3 FDI modes

Total FDI flows are composed of a diverse range of investment projects by firms, involving alternative modes of entering foreign countries. The most common entry modes are mergers, acquisitions and Greenfield investments. For foreign investments, the first two entry modes are

[13] UNCTAD estimates based on cross border M&A database for M&As, and information from the Financial Times LtD, fDi Markets for greenfield projects.

often used to quickly acquire market share in a foreign market or industry or to increase market share.

For the host country, Greenfield investments are expected to bring more benefit than a merger or acquisition, especially in the short run. Greenfield projects add directly to the stock of productive capital and generally mean more immediate employment benefits, as new facilities need to be built and staffed. A merger or acquisition, on the other hand, represents a change of the ownership and cannot be guaranteed to mean more employment. For this reason, investment promotion agencies strongly prefer Greenfield projects (De Witte et al., 2008).

At the same time, mergers and acquisitions require a different set of intelligence and skills for investment promotion agencies. Rather than selling a location, agencies are required to “sell” individual companies. These are entirely different kinds of value propositions for which agencies have not been set up. It can also be argued whether this should be a task for an IPA or rather be left to the market.

Greenfield investment remained steady in 2011 (compared to a decline in 2009 & 2010) with a value of USD 904 billion. Cross-border M&As accounted for an increase in value by 53 percent in 2011 up to USD 526 billion. Thus, the increase in global FDI was mainly led by cross-border M&As. Nevertheless, the total project value of Greenfield investments still remains significantly higher than that of cross-border M&A’s, as has been the case since the financial crisis (UNCTAD World Investment Report 2012, p.6).

When distinguishing per region, growth in FDI inflows of developed economies mainly concerns cross border M&As by foreign transnational corporations (TNCs) while the growth in FDI inflows of developing economies and economies in transition mainly occurs from greenfield investment. About 2/3 of the value of Greenfield investments is hosted by developing and transition economies. The increase in the amount of Greenfield investment originating from India, China and to a lesser extend Russia might indicate that these regions are a new source of FDI (European Competitiveness Report 2012).

The importance of M&As as a means for entering foreign markets by TNCs is expected to increase (2012-2014). M&As are mainly expected to occur in emerging economies originating from developed as well as from emerging economies (UNCTAD World Investment Report 2012, p.18, based on UNCTAD’s World Investment Projects Survey 2012-2014).

2.2 FDI in companies’ international strategy

2.2.1 Towards an optimal value chain

In the past international firms often either concentrated their activities in the home country and exported from there to other countries (export strategy) or they replicated all the activities in other countries (multi-domestic strategy). But global economic integration has changed location strategies of firms considerably. The design of a well-performing global value chain has become a key element of a successful strategy implementation. Firms now try to generate advantages or cost benefits by spreading activities belonging to their value chain across different countries in an optimal setting through outsourcing and relocation (e.g. Sleuwaegen and De Witte, 2009; European Competitiveness Report 2012; OECD, 2013).

With some delay even the internationalisation of business R&D has followed the globalisation of production and globally distributed R&D networks of multinational firms emerged in the 1990s. The globalisation of value chains was facilitated and driven by a complex set of factors, including changes in trade and investment governance, improved intellectual property rights protection, the growing ease and falling cost of international communication and travel, and the concomitant vertical industry specialisation and unbundling of value chains (e.g. OECD, 2007; Bruche, 2009).

As a consequence of the unbundling of value chains, Sleuwaegen and De Witte (2009) argue that location behaviour of multinational firms should not be analysed at the level of the firm but at the level of the different activities distinguished in the value chain of the firm. Different activities across the value chain (sales, production, logistics, and headquarters) have different location needs and thus locations are weighed against their attractiveness for specific activities rather than their attractiveness at an industry level. This has had important consequences for the way IPAs can attract FDI and target companies.

2.2.2 *Drivers of FDI*

Research on FDI[14] has identified four main groups of motives making locations attractive to multinational firms:

- Market seeking motives
- Efficiency seeking motives
- Resource seeking motives
- Strategic asset or capabilities seeking motives

Whereas the first two motives start from the traditional asset-exploitation model of FDI (i.e. the international exploitation of firm-specific advantages), the latter group of motives adopts rather an asset-exploration view on FDI.

Market seeking FDI[15]

Market size remains an important determinant of global FDI flows. Once a specific international market reaches a certain level of importance in terms of profit generation, FDI becomes a considerable option within firms to better serve this local market. Such FDI might relate to the establishment of a local representative office or a local sales and marketing office, but also to local production if the local or regional market is of considerable size and costs can be lowered.

Efficiency seeking FDI

This type of FDI tries to take advantage of differences in factor costs among locations. As it is concentrated on relatively unsophisticated tasks, it is especially seen in investments by firms from higher cost regions into low cost regions in order to reduce costs. The scope for efficiency-seeking FDI originates from advances in ICT, trade liberalisation and cost-effective transportation, which enable firms to take advantage of international factor cost differentials. Efficiency seeking FDI has contributed significantly to the growth in intra-industry trade flows (e.g. Gray,1998).

Resource seeking FDI

This strategy seeks to exploit specific natural resources. It involves companies expanding internationally to access raw materials available in the host country. With quickly-rising world demand triggering imbalances in commodity markets and thus boosting prices, this type of FDI has boomed since the mid-2000s especially in resource-rich developing countries (UNCTAD, 2009).

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14 See e.g. Dunning, 1993, 1998; Markusen and Maskus, 2002; Grossman et al., 2006; Cantwell and Mudambi, 2005.

15 In “The Internationalization Process of Firms: from Exports to FDI”, CEPR Discussion Paper 9332, the authors show that a firm’s FDI entry in a foreign market is almost always preceded by its export entry, based on a dataset of firm-level exports and FDI in individual destination countries covering all Belgian companies over the 1998-2008 period.

Strategic asset or capabilities seeking FDI

Different from the traditional asset-exploitation motives of FDI, more recent FDI research also argues that firms expand internationally with the primary intention of acquiring valuable knowledge that resides abroad, rather than to exploit existing competencies (e.g. Kedia et al. 2012; Bhagat et al. 2002; Cantwell and Janne 1999; Chung and Alcacer 2002). In the growing search of many companies for an optimal network configuration to remain competitive, such strategic asset seeking motives have gained importance. A strategic asset or capabilities seeking expansion would allow the investor to access new technology, skills or knowledge and may involve the following strategic operations:

- Acquisition of key established local firms;
- Acquisition of local capabilities including R&D (including existing patents), knowledge and human capital;
- Acquisition of market knowledge;
- Pre-empting market entrance by competitors; and
- Pre-empting the acquisition by local firms by competitors.

Although knowledge-seeking has often been defined as seeking access to superior technology in more technologically advanced locations by firms originating from developed countries (e.g., Berry 2006), Kedia et al. (2012) rightly argue for a much broader interpretation of knowledge-seeking, one which accounts for the important role of different functional types of knowledge. They categorise knowledge into four broad functional areas: Technology (Application), R&D (Product Development), Consumer and Market Expertise, and Management and Operational Expertise.

Especially developed regions (e.g. North America, Western Europe, Japan) offer a relatively more advanced competitive environment, educated workforce, and institutional infrastructure which own, promote, and protect these knowledge types. These higher end functional knowledge types are often embedded in existing organisations.

Based on the lower level of development of their home markets, multinationals from emerging economies are a growing group of investors that seek the higher end functional knowledge types of technology, R&D, and management and operational expertise in these more developed countries (Luo and Tung 2007; Mathews 2002, 2006). To gain access to these technologies and knowledge they often must enter developed countries through FDI (Luo and Tung 2007). According to Kedia et al. (2012) these firms are more likely to engage in FDI through partnerships rather than independently when their primary knowledge-seeking motivation is technology, R&D, or management and operational expertise. Observed take-overs seem to correspond to a reasonable pattern, like companies specialised in the low-end segment of the market purchasing EU companies in an attempt to serve the high-end segment as well, e.g. Sany taking over Putzmeister or Tata taking over Rover. International consumer and market expertise is more often acquired independently.[16]

2.2.3 *Europe's changing position as investment location in global value chains*

The economic and financial crisis that characterises the global economy since 2008 has impacted the investment behaviour of firms. All types of FDI projects have been affected, but with differences in magnitude and location pattern of impact (UNCTAD, 2009).

[16] One relatively new phenomenon in terms of strategic acquisition has been the purchase of patent portfolios in response to the use of courts to intimidate and seek rents from competitors. These types of investments are, however, less desirable because companies are more interested in engaging in defensive legal strategy than in developing new technologies in partnership with the purchased company. Exceptions exist, of course, such as Google's purchase of Motorola, though the market still waits to see whether some innovative products will develop from this partnership.

The most directly affected types of investment have been market-seeking FDI projects, especially those aimed at developed countries (UNCTAD, 2009, p.8-9). Also the European region has experienced a slowdown. With prospected negative economic growth rates in many European markets, companies are restraining the launching of new projects aimed at increasing their market-oriented production capabilities in Europe, while they remain more committed to capacity expansion in emerging and developing economies.

The impact of the crisis on efficiency-seeking FDI projects is more difficult to assess. On the one hand, these projects suffer globally from the decline in the companies' financial capabilities (UNCTAD, 2009, p.7). On the other hand, many companies use the on-going crisis to restructure their international activities to cut cost and boost overall efficiency. This means closing or downsizing obsolete or non-cost-competitive facilities - often located in advanced economies, such as Europe -, but also opening some new cost-efficient facilities, especially in emerging economies. A recent observation in efficiency-seeking FDI is the insourcing of previously outsourced production activities, provoked by increasing and volatile cost levels in the host country.

Resource-seeking FDI projects also suffer, at least in the short-term, from the decline in world demand and consequently in prices, with particularly negative effects on resource-rich developing countries. But it is highly probable that this type of investments will quickly arise again once the present economic recession is over and price imbalances increase again. As Europe is not a particularly resource-rich region this does not highly affect EU FDI inflows.

Finally, strategic asset and capabilities seeking FDI projects do suffer globally from the decline in companies' financial capabilities as well. However, unlike the asset-exploitation type of FDI projects, the knowledge acquisition nature of strategic asset and capabilities seeking FDI projects makes investments important from a long term strategy perspective. Moreover, multinational firms from emerging economies might be less affected by the crisis and look for investment opportunities in financially weaker markets such as Europe to get access to specialised knowledge.

2.3 Challenges for Europe in FDI promotion

The previous paragraphs have highlighted that the context for attracting FDI to Europe has changed considerably over the last two decades:

- The level of competition to attract new FDI projects has increased significantly for European locations (though so has the number of opportunities to pursue);
- An important group of new investors has emerged from home countries with whom Europe has less strong cultural and socio-economic historical linkages; and
- Strategic asset and capabilities seeking FDI has gained importance over time, as firms continuously search to optimise their global network of operations.

From this changing context a number of issues emerge with respect to attracting FDI and FDI promotion strategies for investment locations across Europe. They relate to the following:

- What is the most optimal way to promote the strengths of investment locations in Europe?
- How should new types of investors fit into FDI promotion activities?
- How to deal with investor requirements with regard to skills availability?
- How can FDI promotion support regional economic development?

2.3.1 Towards an optimal network configuration for FDI promotion in Europe

Given the widely recognised importance of foreign direct investment for regional economic development, every country attempts to attract FDI. Almost every country has an investment promotion agency, often supplemented with similar institutions at the regional level. Countries also continue to improve their investment climate for foreign direct investors[17].

As a consequence, the competitive pressure for FDI promotion in Europe has increased significantly over time. Moreover, the share of developed countries in FDI inflows has fallen significantly relative to the share of emerging economies, within a context of shrinking global FDI flows (see also paragraph 2.1.1) and future prospects continue to express Europe in the defense; only four EU countries appear among the 15 most attractive FDI locations in 2009-2011[18]. On the investor side, although intra-European investments remain by far the most important source of FDI in Europe, the most dynamic investors nowadays can be found outside the EU – investors that increasingly look for specific strategic asset and capabilities to strengthen their business strategy. Combining these different elements, this challenges Europe to set up a balanced and complementary network of actors in FDI promotion across Europe with an increasingly important focus on attracting non-EU FDI.

Promoting the strengths of the EU

Until recently,[19] EU member states had full competence over FDI, and the role of EU institutions was very limited. In Europe Member States still compete against each other and have steadily increased the scale and scope of resources devoted to national and sub-national investment promotion agencies (IPAs) – in line with global trends.

17 The UNCTAD Investment Policy Monitor database recorded 67 national regulatory changes in investment policy for 2011, of which 52 related to investment liberalisation, promotion and facilitation, while only 15 related to new restrictions or regulations for foreign investors (UNCTAD World Investment Report, 2012)

18 UNCTAD, World Investment Prospects Survey 2009-2011, Geneva, 2009. The most attractive country is China, followed by the US; the first EU country is the UK, in sixth position. China is ranked highly both because of the size of its economy and also because of perceptions of increased market opportunity due to its large economic growth. The quality of the labour pool is also cited as an important element.

19 An important novelty of the Lisbon Treaty (2009) was the inclusion of FDI within the scope of Common Commercial Policy, implying a transfer of certain FDI competences from the member states to the EU, which now has the ability to conclude international investment treaties. The EU now negotiates regarding the liberalisation of trade and investment, as well as on conditions related to protection of investment on behalf of all EU member states (UNCTAD World Investment Report 2012).

While competitive FDI promotion in Europe will remain, some argue that a more efficient promotion of the EU as a regional bloc is needed for Europe to face global challenges (see e.g. Guimon 2010).

Promoting specific regions and cities

Cities in general and urban agglomerations in particular have always been viewed as the main drivers of economic growth and jobs, social change and innovation across Europe. Urban areas account for the lion's share of European value-added (Ecotec, 2006). Several authors have noted the increase over the last fifteen years or so in competition between cities to gain investment and to promote themselves (see e.g. Ecotec, 2006; Harvey, 1989; Cheshire and Gordon, 1995). Cities are becoming more exposed to global forces, as the nation state becomes more open to capital and trade flows (Kaothien and Webster, 2000). Urban regions (through local government, public private partnerships, or the local private sector) typically have considerable influence over local infrastructure and amenity, industrial estates, office complex development, and community networks / forums. (Webster and Muller, 2000). This makes them ideal discussion partners for FDI investors that look for the right (innovation) environment and so-called 'ecosystem' to strengthen their own firm-specific advantages (such as strategic asset seeking FDI). The question arises how national, regional and local authorities find an optimal configuration to organise FDI promotion in the most effective way.

2.3.2 New recipes of FDI promotion for new investors?

New investors with new management styles

There is a significant amount of research that underlines the importance of country of origin effects on strategy decision taking in firms (e.g. Hofstede, 1994; Hodgetts and Luthans, 1999)**.** Johanson and Vahlne (1977) were the first to suggest a country of origin effect between geographical distance and location strategy. Kogut and Singh (1988) further explored the country of origin effect on entry mode behaviour. They found strong support for the effect of national culture on entry choice. Also Hennart and Larimo (1998) found that national origin affected the entry strategies of European and Japanese multinational enterprises entering the U.S. Holt et al. (2006) found that the selection criteria that US-based multinationals used to make regional headquarter (RHQ) location decisions, were found to be significantly different to the selection criteria Asian-based multinationals used when making their Regional HQ location decisions, the latter focusing much more on softer location factors than their US counterparts.

As the FDI investor base has diversified considerably over time – with an increasing share of emerging economies, Kedia (2012) underlines that the unique characteristics of emerging markets (e.g. lower level of development, institutional voids) may cause multinationals from emerging economies to have different motivations, competitive strategies, and risk tolerances during internationalisation as compared to traditional multinationals. It is increasingly important to take this into account when designing FDI promotion actions.

State-controlled investors and sovereign wealth funds

Developing country sovereign wealth funds (SWFs) and state-owned enterprises (SOEs[20]) as players in the world FDI market have received considerable attention recently. These state-

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[20] Following UNCTAD "SOEs" are defined as enterprises in which the government has a controlling interest, with "control" defined as a stake of 10% or more of voting power. Ownership can be direct or indirect (including through e. g. government-controlled pension funds, other government-owned firms) or involve special circumstances (e.g. golden shares). It can be passive, even if a government holds (directly or indirectly) more than half of the shares.

controlled entities (SCEs) have become important players in the world FDI market[21], and FDI by SCEs is likely to grow further.

As a result, the screening of incoming mergers and acquisitions by local authorities (especially when they are being undertaken by state-controlled entities) has intensified over time. Regulatory attention began to specifically focus on FDI by SCEs since the mid-2000s. This was fuelled by the concern that SCEs may pursue objectives other than commercial interests[22] (and therefore might constitute a national security risk for host countries) and that they receive benefits from their governments that put them into a competitive advantage vis-à-vis their private counterparts. To address the first concern, especially developed countries have passed laws or clarified regulations that foresee special treatment for SCEs, creating a separate class of foreign investors (Sauvant and Strauss, 2012).

However, as the financial crisis deepened, attitudes towards these new investors began to change. As western financial firms displayed an increasing need for foreign capital, Western governments and firms have started actively seeking sovereign direct investment, and public calls for opening financial markets to SWFs now abound[23] (Fotak & Megginson, 2009). However, Fotak & Megginson (2009) stress that still very little is known about the impact of SWF investments on target firms and recipient economies and further study of SWF investments should precede any (overreacted) decision taking in FDI regulations.

2.3.3 Availability of skilled workforce

Investors from different sectors will have differing needs (a point taken up further in chapter 5). However, one relatively constant need expressed by investors is the need of an available, skilled workforce. The issue is particularly acute in areas around science and technology, where a strong demand for workers remains despite slowdown in the economy.

Oxford Intelligence observed a lack of robust and comparable data on 'hard-to-find skills' in conducting European Location Benchmarking studies since 2001.

Table 2.2 Key location drivers per sector

	Life Sciences	SSC's	Contact Centres	ICT	Renewable Energy	Performance Engineering
Skills	x	x	x	x	x	x
Local market size and growth potential	x			x	x	x
Proximity to key clients	x			x	x	x
Established clusters	x	x		x		
Labour costs		x	x			x
Incentives			x		x	x
Property costs		x	x			
Proximity to international airports.	x			x		
Suitable premises/land		x				
Communications and infrastructure			x			
Transport Infrastructure					x	

Source. Oxford Intelligence Sector Reports – Interviews with Corporate Executives

21 UNCTAD identified more than 650 SOEs that are MNEs, originating from both emerging markets and developed countries (UNCTAD World Investment Report 2011). For example, in the case of China -- in 2010 the world's fourth largest outward investor in terms of flows (not counting Hong Kong) -- SOEs control the bulk of the country's growing outward FDI (Sauvant and Strauss, 2012).

22 See Karl P. Sauvant, Lisa E. Sachs and Wouter P.F. Schmit Jongbloed, eds., Sovereign Investment: Concerns and Policy Reactions (New York: OUP, 2012).

23 For example, Organisation for Economic Co-operation and Development, "Sovereign wealth funds and recipient country policies," OECD Investment Committee Report (2008) and Warren Buffet, "Letter to the shareholders of Berkshire Hathaway Inc." (2008).

Across the analysed sectors, CEOs indicate that finding the right talent is the single most important reason for choosing a location to set up new facilities. While graduates and post graduates contribute to the future talent pool, for companies it is a question of who is available from the local workforce, now – are the necessary skilled people available in sufficient numbers and how does one region or country compare to another.

At its most basic level, if a company is unable to fill their vacant positions with competent employees, strict labour conditions or tax policy will not even enter the equation.

2.3.4 Smart investor targeting to support economic development

Aligning FDI promotion activities in Europe with smart specialisation strategies

More and more governments are moving away from a hands-off approach to economic growth and development and start playing a greater role in the economy. Industrial policies and industrial development strategies are proliferating in both developing and developed countries, and are giving more direction to investment policy (UNCTAD World Investment Report 2011).

At the European level, the Europe 2020 strategy[24] and especially the Communication on "Regional Policy contributing to smart growth in Europe 2020" (COM(2010) 553 final) provides important input for giving more direction to investment policy in Europe. The Communication stresses the importance of developing smart specialisation strategies to support regional development. Smart specialisation involves a process of developing a vision, identifying competitive advantage, setting strategic priorities and making use of smart policies to maximise the knowledge-based development potential of any region, strong or weak, high-tech or low-tech (cfr. S3 Platform[25]).

The city of Lahti, for example, 100 kilometres north of Helsinki, faced difficulties in the 1990s with the collapse of trade with the Soviet Union. Despite the lack of an internationally known major university and relatively low research and development, policy-makers sought a regional strength on which they could build. The area focussed on three areas of expertise: clean technology, design, and practice-based innovation, and in co-operation with four universities from other regions, worked with the local higher educational institute to deliver curricula in the region around these themes.

Smart specialisation strategies provide a strong basis to help regions to concentrate resources on few key priorities rather than spreading investment thinly across areas and business sectors. Rather than being a strategy imposed from above, smart specialisation involves businesses, research centres and universities working together to identify a region's most promising areas of specialisation, but also the weaknesses that hamper innovation.

The Communication does remark that smart specialisation strategies have to be closely linked with other policy domains and require an understanding of regional strengths relative to other regions and of the possible gain for inter-regional and trans-national cooperation. In this context, smart investor targeting (by FDI promotion agencies) could have an important leverage effect on the smart specialisation strategy of regions. Conversely, the smart specialisation strategy of regions provides a solid basis for better FDI promotion activities to strengthen regional development.[26]

[24] COM (2010)2020 'Europe 2020: a strategy for smart sustainable and inclusive growth'.

[25] http://s3platform.jrc.ec.europa.eu/home

[26] The regions of Bavaria (see Section 4.3.2) and Flanders (see Section 5.2.2) are interesting examples that we deal with later in this report.

Rebalancing the relationship between governments and MNEs

As pointed out in the introduction of this chapter, the underlying aim in FDI promotion activities is that two parties with decision making power find a good match: an investor and a host location. On the one hand, local governments seek to maximise the benefits of the FDI project in the framework of their national/regional economies. Foreign investors on the other hand, seek to maximise the benefits of their investment in the framework of their global corporate networks. This constant 'tension' between the different objectives and frameworks is reflected in FDI policy making. During the late 1960s and the 1970s, the objectives of hosting governments overshadowed the objectives of investors and there was a strong focus on controlling multinational firms. In the 1990s the balance turned and the dominant approach was rather liberalisation (Sauvant, 2012).

Recently, a rebalancing in investment regulation is noticed. A growing number of governments are taking a more nuanced approach to the role of FDI in their economies and more actively use FDI as a tool to serve local objectives (e.g. UNCTAD, 2012; Sauvant, 2012). In so doing, UNCTAD (World Investment Report 2012) points out that we may well expect that governments will pay more attention not only to the quantity of incoming foreign direct investment, but also to its quality (or "sustainable foreign direct investment" -- defined as investment that makes a maximum contribution to a country's economic, social and environmental development and takes place in the framework of fair governance mechanisms, without jeopardizing its commercial viability).

Sauvant (2012) remarks that this rebalancing is being helped by the fact that more and more countries are simultaneously home and host countries. According to him, the challenge to find the right balance between the rights and responsibilities of governments and MNEs, is central to the future of the investment regime. In this context, Vale Columbia Center on Sustainable International Investment (VCC) and the World Association of Investment Promotion Agencies (WAIPA) (2010) speak about moving towards the "*fourth generation of investment promotion*", namely targeting sustainable FDI. This follows the first generation of investment promotion, when countries liberalised their regulatory frameworks for such investment; the second generation, when many IPAs were established to attract FDI; and the third generation, when IPAs targeted particular types of FDI in line with their national objectives.

2.4 Challenges experienced by IPAs in EU Member States

As part of our semi-structured interviews we have asked all 26 IPAs what they have perceived to be the most important challenges in carrying out their investment promotion mandate over the last four to five years. The below is a categorised summary of these challenges.

Market reality

- First and foremost, the majority of IPAs report a limited number of new projects, cancelled or delayed decisions on projects in the pipeline, and more prudent decision making processes among existing clients. This has in general led to an increased workload per potential investment project, as well as an increased uncertainty on the outcome and timing of location decisions;
- The FDI operating environment has been challenging due to the home country situations, competition from other regions, and the difficult US market;
- Some of the Member States have benefited from the global economic and financial crisis as some of the more market-driven projects have relocated from less mature markets in the EU towards countries like Austria and Germany, which are seen to be more stable and safe investments.

EU market conditions and regulatory framework

- The environmental legislation and prevailing maximum pollution levels in the EU are less stringent, if not non-existent in competing locations such as China and Turkey. There is no global level playing field;
- The average cost of energy has gone up compared to Middle East and USA.

Country-specific challenges

- Countries on the periphery of Europe, countries with a relatively small population, and countries with relatively young market economies report challenges they have to get on the longlist of potential investors. This can be due to the geographical location or other given characteristics of the country, but some IPAs point to problems that persist with regard to the poor (or even lacking) perception companies and multipliers have of their economy.
- Selected IPAs continue to fight the (perception) of high bureaucracy in their country;
- Availability of skilled labour force continues to be an increasing problem for most of the IPAs. This is not only associated with the possibility to attract projects, but also with the potential of inducing competition over scarce labour resources among existing companies and incoming investors;
- The austerity measures taken by selected Member States have had various effects on FDI inflows across these Member States. Most striking has been the effect of the austerity measures taken in Ireland, where the Government's commitment to the corporate tax regime and other crucial elements of the business environment in the negotiations over severe budget cuts has increased the country's profile as a location favourable to FDI. Countries that did not manage to show the same level policy consistency have suffered from this in attracting FDI.

Challenges at agency level

- Budgets have been stable in most countries, whilst costs have increased;
- One of the immediate consequences of budget cuts in selected countries has been the reduction of total staff numbers. Upholding the same targets as in previous years with lower numbers of staff has proven to be difficult and associated turnover of staff has been high. Some IPAs report to have reached their 'minimum critical mass'. Low staff numbers then imply that projects cannot be shifted between account managers, making staff absenteeism difficult.

New venues for IPAs

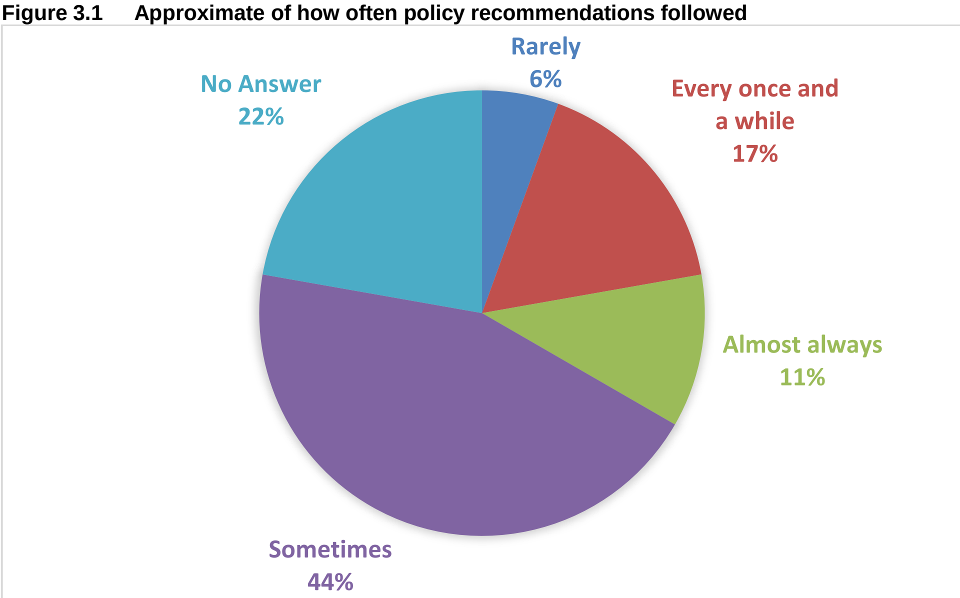
- Access to finance, specifically for USA-EU projects and intra EU projects has proven to be a factor hampering FDI into selected countries. This provides challenges to IPAs to move into connecting with investment funds and cash reserves investors with potential business angels, investment funds, and venture capital. These are new and unknown areas to some of the IPAs;
- Increasingly, companies from emerging economies approach IPAs with requests for services to bring them into touch with local companies that could be potential joint venture partners or M&A candidates. Companies from countries such as China have gradually changed their approach over time and realise that partnering with or acquiring local companies with local management and knowledge is an effective way to gain access to the large EU consumer market, skills and competences, and technological developments. As M&As are an atypical terrain for IPAs it requires strategic choices to be made on how to deal with these requests.

3 A framework for FDI promotion

Investment promotion agencies can think of their location as being a product, but it is also a product that they are generally not in charge of shaping. The business environment—ranging from the skills of employees, the labour policies that govern how those employees can be used, the tax policy that determines how a company helps pay for government services, and the environmental policy that introduces standards on how a company is run—is influenced by many government departments, sometimes with conflicting aims.

Of course, investment promotion agencies engage in so-called policy advocacy, participating in policy discussions and producing policy papers. In a survey conducted for this study, the vast majority of responding agencies in Europe indicated that they produced material that would be used to lobby their national government. Investment promotion agencies also generally felt that their voices were being taken into account in the policy-making process.

Figure 3.1 Approximate of how often policy recommendations followed



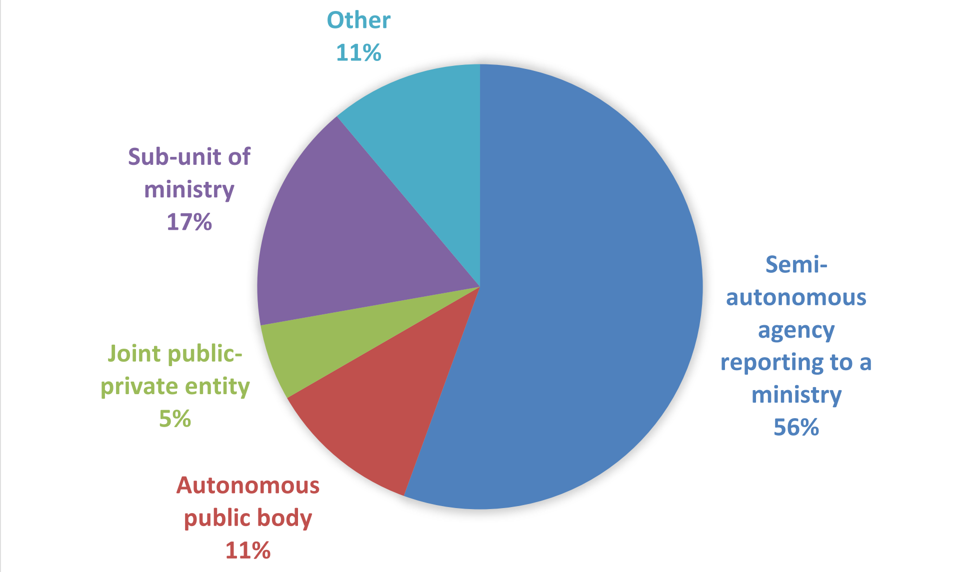
Source. Survey

On a general level, this policy advocacy is going to be on behalf of local companies and also to promote policies that will help improve the local business environment (so to help improve the product being sold). One might term this as being *corrective* advocacy, where agencies identify policies on an ad-hoc basis and lobby the government to ease any barriers to business.

However, in some cases, this advocacy can be viewed as being more *strategic*, with policy decisions playing directly into a specific value proposition being built by an agency. For example, Copenhagen's government has made sustainability and green living a policy priority for the city. This strategic policy objective runs across the policy spectrum, determining transportation policy and the city's push for more bicycle infrastructure. But this also plays into the types of investment that the city tries to attract and the image it tries to build. This example will be addressed further in the next chapter.

Underneath the umbrella of strategic policy-making, countries and regions also make tactical decisions on how their investment promotion strategies will take place. This means, among others, the structure of the investment promotion agency, such as their reporting structure and their association with the government, as well as the general activities of the agency. Many agencies, for example, are not strictly responsible for investment promotion. Germany, Malta, Flanders, Portugal, Romania, UK, and the Welsh agency—with Greece joining the group in 2013—all take responsibility for export promotion and also with helping businesses to internationalise.[27] Some agencies also deal directly with helping local small and medium-sized enterprises.

Figure 3.2 Structure of the agencies who responded to the survey

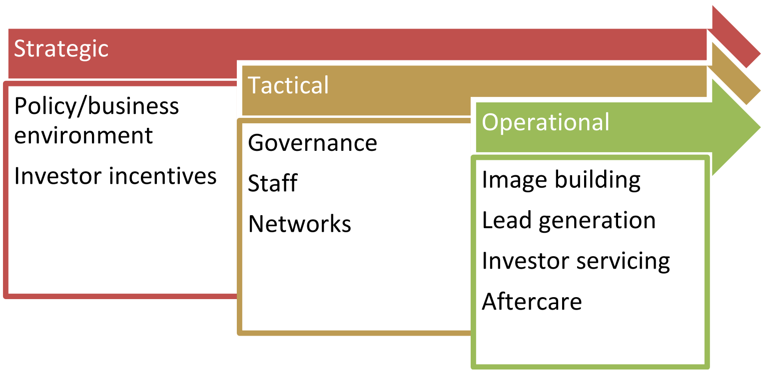


Source. Survey

Finally, after the strategic and tactical elements, the day-to-day operations of how exactly investment promotion will be conducted needs to be determined. Here, the discussion is on the many practices that agencies engage in.

Ideally, these three levels complement each other, and arguably “smart specialisation” (discussed in more depth in chapter 2) is a part of aligning strategy, tactics, and operations. It recognises that regions need to specialise, which in many ways mirrors the realisation of regions that they need to provide much more specified and “bespoke” value propositions to potential investors (discussed further in the next chapter).

Figure 3.3 Three layers of investment promotion



[27] Agencies can exploit the synergies between investment and export promotion at both a macro and operational level. Operationally, those working in these two fields require some of the same skillsets and can rely on similar data. At a strategic level, if governments want to plug their economies better into the global economy, they may develop a policy mix that encourages internationalisation, which includes not only foreign investment and export promotion, but can also include immigration and education policy, among others.

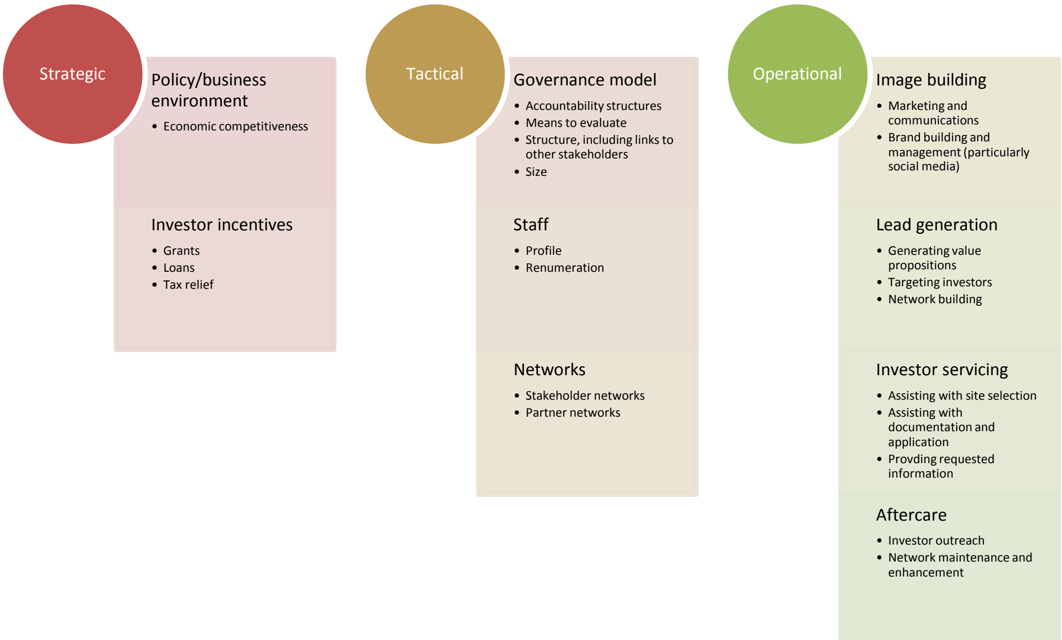
3.1 Outlining strategic, tactical, and operational levels of FDI promotion

As mentioned in the previous section, macro, tactical, and operational concerns interact. Targeting a particular sector as a part of lead generation will be made easier if the right partner networks are being organised and incentives are being shaped in the right way.[28] The main point here is that to call targeting good practice in isolation is to miss the integrated nature of the investment promotion exercise. Yes, targeting has been and will continue to be an important component of investment promotion, but it is made more effective if done in combination with other policies.

Of course, when evaluating an investment promotion agency, it makes sense to start on the operational level, given that this is what they most have under their control. In some situations, like image building, those responsibilities might be shared with other ministries or stakeholders, but this will generally be the choice to the agency rather than a mandated action from a responsible agency.

But before delving further into the interaction between these three levels of investment promotion, it may be useful to further define what is contained within each.

Figure 3.4 Three layers of investment promotion broken down



In the subsections below, we define the various elements for this framework for investment promotion.

3.2 Strategic

Below are illustrated the various elements of strategic considerations for foreign investment promotion.

[28] Note that the authors of this report make no claims about the validity of incentive schemes, and some researchers certainly question the value for money that they provide. Nonetheless, if incentive structures do exist, they should reflect the targeting that is taking place.

3.2.1 *Policy and business environment*

In short, the business environment refers to those factors which influence the running of a business which are outside of the business owner's control. This can include anything from the availability of a skilled workforce, the regulations that businesses need to follow, and the geography in which they work.

The business environment may be outside of the control of the businesses that operate within it, but governments do have a role in shaping that environment. They are the entities that enact education and innovation policies that shape the skills of the available workforce. They are the ones that institute the taxes that companies need to pay. They are the ones that impose environmental and labour regulations to protect the sustainability of a region.

3.2.2 *Investor incentives*

Incentives offered by various levels of government can be divided into three categories, namely:

1. **Fiscal incentives.** Profit-based, capital investment-based, labour-based, sales-based, value-added-based, import- or export-based and incentives based on particular expenses.
2. **Financial incentives.** Government grants, government credits at subsidised rates, government equity participation and government insurance at preferential rates.
3. **Other incentives.** Subsidised dedicated infrastructure, subsidised services, market preferences and preferential treatment on foreign exchange. (Faeth 2009)

Given the amount of tax money that can go into these incentives and the uncertain nature of measuring the effectiveness and results of these incentives, the subject has come under heavy study for a number of decades, with dueling statistics drawing opposing results. Despite the disagreement, a few general results can be garnered.

First and foremost, the influence of investor incentives on FDI depends on the type of FDI being attracted. In the previous chapter, four types of FDI: market seeking, efficiency seeking, resource seeking, and strategic asset seeking. Clearly, companies looking to move to a location to decrease costs along their supply chains are going to be more sensitive to various financial incentives than those looking to exploit a particular market. Overesch and Wamser (2009) confirm this finding.

Digging further down into the literature, one can find finer and finer gradations of the tax elasticities of companies. Stöwhase (2005) examines bilateral foreign direct investment flows in the EU and finds that the service sector had a higher sensitivity to tax rates than manufacturing. Mutti and Grubert (2004) also found that export-oriented foreign affiliates of American multinationals were more sensitive to tax rates than foreign affiliates serving host markets. Tuomi (2011) found that financial incentives played very little role in investment decisions of companies in South Africa; however, they did find that import-duty offsets were important for the automotive industry.

Answering the question definitively on whether tax incentives should be a part of any package is further muddied when one considers the opportunity costs involved. In a meta-analysis of nine different theoretical lenses through which to understand the determinants of FDI, Faeth (2009) found that while fiscal and financial incentives were found to have a significant effect on FDI in a number of studies, those effects were relatively small compared with other factors, such as market size and growth, basic infrastructure, political stability, cost and availability of factors of production.

Of course, within the European Union, investor incentives are subject to State Aid Guidelines and, in particular, to the Regional Aid Guidelines, which set a maximum subsidy for every region, with the highest subsidies allowed only in the European Union's poorest regions. Incentives have, in fact, been on the decline with the European Union. And some studies have shown that this has helped reduce the cost of investment attraction, though again, in very particular circumstance, from which one must be careful about drawing generalisations. For example, Hyundai received incentives of about US$ 117,000 per job from Alabama in 2002, but only about US$ 75,000 per job from the Czech Republic in 2007 (Vale 2011)

3.3 Tactical

Below are illustrated the various elements of tactical considerations for an investment promotion agency.

3.3.1 Governance model

The way in which an investment promotion agency is structured and governed will influence many of its operational decisions. An organisation that reports directly to a Ministry with a Board of Directors made up exclusively of civil servants will most likely have a different set of priorities than an autonomous body with private-sector representation. While plenty of overlap between public and private interests exist, public-sector interests generally have a wider constituency to please and a wider set of interests to consider (setting aside some of the precepts of corporate social responsibility).

Governance can be measured using three indicators, namely:

Accountability structures and means of evaluation

Accountability is a two-sided coin with responsibility on one side and measurement / punishment on the other. Accountability begins when a principal delegates responsibility to an agent for a task. The *act* of accountability, however, takes place when an agent proves to a principal that tasks for which they are responsible have been completed satisfactorily.

Measuring success in foreign direct investment is a key component of accountability, and at the same time, a powerful driver of action for an investment promotion agency. If an agency's performance is measured by the number of jobs created by inward investment, it will influence the sectors that they target, as opposed to agencies that are measured by amount invested or other combinations of indicators.

Accountability can take place along several lines.

Fiscal. In cases of unsatisfactory performance, the principal cuts resources to the agent. When an IPA is government financed, this will be an important mechanism.

Legal. Legal agreement is made between the principal and agent, with the court system mediating any disagreement over performance. In general for investment promotion, this is less important.

Market / User. Users of the agent's services who are unhappy can choose other providers. A large number of "exits" will not destroy the principal/agent relationship, but should cause the agent to alter its behaviour. While many agencies rely for their funding almost strictly from the government, some agencies to provide services to incoming investors for a fee, so this mechanism can have some effect.

Peer / Professional. Certification by other organisations not directly involved in the principle/agent relationship, such as peer review or other types of professional validation. While an association of investment promotion exists, they do not serve this kind of quality function.

Public reputation. If agents fail to complete the tasks that their principal demands, their public reputation may be negatively affected. This loss of reputation makes it more difficult to form new relationships in the future. (Regeczi 2007)

Structure

The structure of an organisation encompasses a number of elements, including

Configuration. The shape of the organisation, such as the number of departments and how they are divided. For example, is the agency divided along sectoral or geographical lines (or a combination of the two)? Do employees specialise on lead generation and aftercare or engage in both? Configuration also includes how the agency interacts with its stakeholders and members of its wider networks.

Centralisation. The level at which decision-making can take place. Are employees empowered to make their own decisions or do managers co-ordinate action?

Specialisation. The number of tasks that the agency takes on. For example, does the agency work exclusively with investment promotion or do they also take on other tasks related to export promotion or SME development?

Size

The size of the organisation also affects the level of service that it can provide, which will have a profound influence on the operations of the organisation for obvious reasons. Some studies (Lim 2008, Morisset and Andrews-Johnson 2003) have shown a positive correlation between staff size and performance with investment promotion attraction. However, it has yet to be demonstrated what the "ideal" size of an organisation should be, whether there are diminishing returns once the agency becomes a certain size relative to the size of the overall economy.

3.3.2 Staff

Remuneration and profile

Remuneration of staff, both in terms of size and accountability (incentives), will have the same influence on performance as overall resourcing levels and accountability at the organisational level.

In addition to the basic incentives under which employees work, some discussion has taken place on the profiles that one would want in an agency. This discussion takes place on two levels.

On one level, there is discussion over the basic job skills required to do the job, with some consensus running around the skillset required for certain positions.

Table 3.1 Standard job descriptions of investment promotion agencies

Position type	Skill set
Project manager	Experience in industry, ability to build rapport with investors, has a pro-active, can-do attitude. Experience working in a foreign company is an advantage/
Research and marketing manager	Strong research and organisation skills. Experience in marketing, events and graphics an advantage. Ability to work with close deadlines.
Investment promotion officer	Flexibility and adaptability to do varied types of work. Strong communication skills, including willingness to conduct telemarketing-type work.

Source. Vale 2012

On another level, an extensive literature on the differences in organisational culture between public and private organisations exists, with constant debate regarding the desire for employees with an "entrepreneurial" or "private-sector" mentality. ISPAT, the Investment Promotion Agency for Turkey, in its quest for this mentality for its revamped agency in the last decade only told incoming staff that they would be working for an agency attached to the government only after they had agreed in principle to work for the agency.

3.3.3 Networks, partners and stakeholders

The larger the agency, the more likely that it will have various networks, both locally and abroad, that influences how it can get out its message. What those networks are used for and how they are managed to can vary quite significantly between agencies.

A number of different kinds of networks can be built by agencies, which can include:

- **Direct delivery partners.** This is a network formed with organisations that have a direct stake in winning FDI, such as other government bodies, trade associations, banks, and professional service firms. These partnerships are important to both evaluate the business environment and have the contacts to make suggestions on how to improve it. This can also be important if resources are being shared for operational concerns, such as image building.
- **Wider stakeholders.** In addition to working with partners that help to deliver services and information to investors, engaging regularly with higher education and research centres, major employers, exporters, supply chain companies, local business organisations, logistics companies, and international bodies can help in a number of ways. First and foremost, they represent an important source of intelligence, as agencies can hear first-hand about expansion plans at the corporate headquarters from their local branch. Second, if an agency sees fit to help make connections between various parts of the network—such as connecting university researchers with local companies with particular research and development issues—a general strengthening of the local network can make it more attractive to foreign investors.
- **Advocates.** This network would be composed of the business leaders in the community who have a vested interested in seeing the region grow. They would already have a strong relationship with existing foreign investors, and they can be used to market the attractiveness of a particular region.
- **Influencers and opinion-formers**. One major issue with general marketing is that it often fails to reach the right target, which is one of the attracting aspects of social media and its networks. Networks tend to form around specialised areas, meaning finding a target group for a message can be easier. However, gaining access to that target group can be very difficult given that general marketing messages aimed at a target group will generally fall flat. Getting influencers

and opinion-formers from within that niche group to deliver a message for you can open access to investors that cannot be done through other means.

3.4 Operational

Generally, researchers divide these operational activities into four categories:

3.4.1 Image and brand building

While one likes to think of decision-making in any purchase as being a logical comparison of the many merits and faults of various products, biases seep into the process.[29] Difficulties in quantifying risks—despite best efforts of risk managers—means that impressions of a region will factor into decision-making on location selection.

In a sense, any pitch offered by an investment promoter to an investor is going to be examined through the lens of the nation. German engineers are often perceived to be precise and high quality, a fact that would be extremely difficult to quantify or prove. In fact, German manufacturers are content to play off of this national brand image, with German car manufacturers using German-language slogans in non-German language markets.[30]

Seemingly innocuous comments or laws can take on their own life and influence the brand of a nation. France, for better for worse, is continuously (and in some ways unfairly) tarnished by the 35-hour statutory work week law, which continues to receive mention on many articles in seemingly unrelated discussions of labour disputes in France. Donald Rumsfeld's 2003 comment on "old" and "new" Europe also left a lasting image, which played on the idea of demographic decline in Western Europe. Whether these statements are true are irrelevant—the image that they leave with investors are the dynamics that need to be considered with image building.

Measuring the effectiveness of a brand is a contentious affair, with some work having been done on evaluating the brand recognition and effectiveness of countries. The Anholt-GFK Roper Nation Brands Index is perhaps the best known brand measurement for countries.

Table 3.2 Overall brand ranking

	2011	2010
1	United States	United States
2	Germany	Germany
3	United Kingdom	France
4	France	United Kingdom
5	Japan	Japan
6	Canada	Canada
7	Italy	Italy
8	Australia	Switzerland
9	Switzerland	Australia
10	Sweden	Sweden

Source. Anholt-GfK Roper Nation Brands Index

29 The rise of the field of behavioural economics is but one example of where the idea of the logical, profit-maximising individual oversimplifies reality.

30 Volkswagen advertises with "Das Auto" (The car) as their tagline, while Opel uses "Wir leben Autos" (We live cars).

Generating value propositions

Agencies increasingly use proposition marketing to attract investors to differentiate themselves from their competitors and to provide a high value added introduction to a target company. Increased competition in FDI has meant that using generic marketing and promotional materials alone is no longer sufficient. Agencies put together highly targeted introductory material in order to initiate contact with target investors.

Branding cities versus regions

One point made by the city of Frankfurt in building a branding campaign is the brand recognition of cities versus that of regions. The German province of North Rhine-Westphalia, for example, advertises itself as NRW when marketing to potential investors; however, in most cases, people would be much more likely to recognise the cities inside the region rather than the region itself. The suggestion made by the city of Frankfurt is that regions should anchor and market themselves around the best-known city in the region—even in cases where the entire region is being presented. The Dutch province of Flevoland takes this lesson to heart, for instance, branding itself as being a part of the Amsterdam Metropolitan Area, suggesting it was the “eastern wing of Amsterdam”.

3.4.2 Lead generation

Targeting specific sectors and companies to create investment leads. Activities include identification of potential investors, social media campaigns, investor forums / seminars / webinars, and individual presentations to targeted investors.

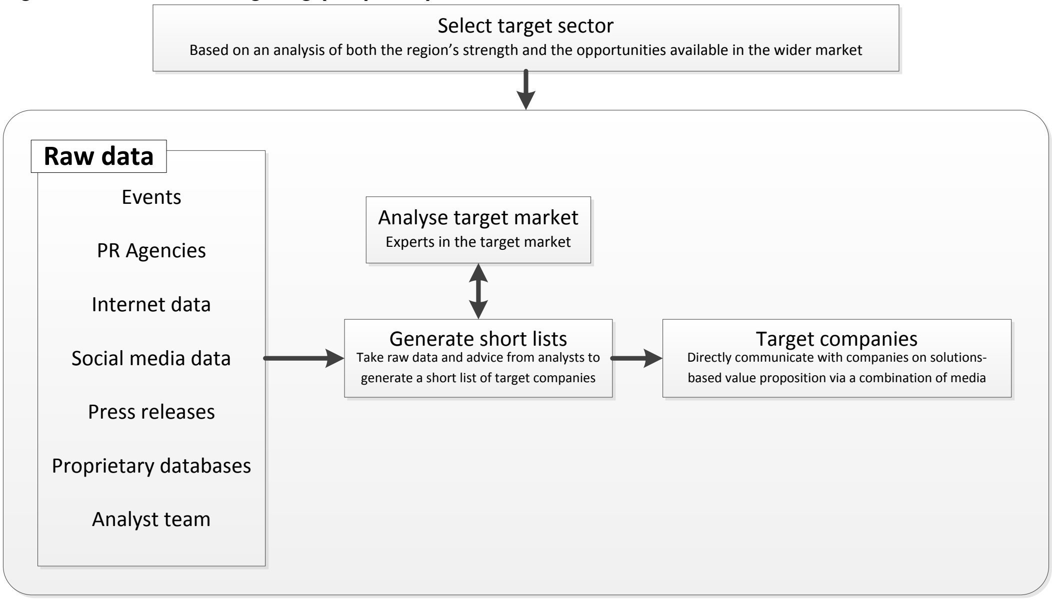
Targeting investors

Targeting investors goes beyond finding a particular target sector which an agency can pursue, but to find companies that:

1. **Fit into the existing business environment.** This can mean finding market-seeking FDI, which means leveraging the size of the market in a particular sector to attract new competitors into the field. It can also mean identifying local clusters or agglomerations of companies and then identifying a missing complementarity, which can be filled by an outside investor.
2. **Fit into a global value or supply chain.** If the agency is looking to attract efficiency-seeking FDI, then analysing global value chains and determining the geographical and economic advantages of firms locating within a given region can also help to determine whom to target.

With this basic targeting determined, agencies need to build a *relevant* pipeline of companies. In terms of efficient pipeline-building, it is better to have a smaller but well-researched and relevant pipeline rather than to target a very high number of companies that are largely irrelevant because they have not been screened for business interest in the region. A summary of the investor targeting process could be illustrated as follows:

Figure 3.5 Investor targeting (simplified)



Source. Oxford Intelligence

3.4.3 *Investor servicing*

Assisting potential investors to analyse investment opportunities, establishing a business and maintaining it. Activities in this area include information provision, "one-stop shop" service aimed at expediting approval process and assistance in obtaining sites, utilities, etc.

3.4.4 *Aftercare*

Rather than focusing on new investment, aftercare focuses on companies already operating in the region to facilitate further investments by attracting new investment from a foreign headquarters. Aftercare provides many important functions, including:

- Providing a source of information on the investors' appreciation of the state of the business environment;
- Providing valuable intelligence on expansion plans of parent companies; and
- Potentially improving the social networks within the region.

4 Investment promotion: expert opinion and current practice in the EU

A lot has already been written on best practice for investment promotion agencies, with UNCTAD, the World Bank, and the Vale Columbia Center on International Investment being three well-known and valuable sources. While somewhat general in their advice, they cover many of the important areas that have become best practice for sophisticated investment promotion agencies, under which the vast majority of European agencies fall.

Some of the topics covered include how to identify key sectors, targeting specific investors, building an aftercare service, building key networks, and marketing a location. Within these main themes are a plethora of secondary themes, drilling down into to how to prepare proposals for investors and to maintain a customer relationship management system.

These existing documents, however, are general manuals aimed at all investment promotion agencies, and they identify best practice at its most basic and applicable level. This makes the advice offered somewhat generic. While it can be useful for new employees of any agency to read through these materials, they offer few new lessons for agencies promoting investment in a European environment.

As such, this report does not attempt to replicate in different words material that already exists nor does it address many of the basic and generally accepted (and empirically tested) practices of investment promotion.

Rather, the purpose of this chapter of the report is to focus on current practices that are in place in EU Member States and regions as well as practices that were implemented bearing in mind the ever changing environment of investment promotion. This chapter identifies revised and expanded thinking on some elements of long-established best practice, and also addresses some of the newest issues facing investment promotion agencies, making suggestions on how they might be approached.

4.1 Good practice for strategy

4.1.1 Policy and business environment

Good practice has long established the importance of setting up an investment promotion agency that works as an intermediary between the private and public sectors. Agencies are not just marketing tools for a country or region, but also interface with the public bureaucracy that has the policy tools to influence the business environment.

All 27 EU Member States have an agency dedicated to attract foreign investments into the country, and most of them have been there for quite some time. The IDA in Ireland is the oldest agency surveyed, established back in 1949. Other well-established agencies include Malta Enterprise (1960), Netherlands Foreign Investment agency (1978), Invest in Austria (1982), Andalusia (1987), and Denmark (1988).

Promoting investments from foreign companies into the domestic economy links with a wide set of domestic (industrial) policy areas, including the quality of the overall business environment, the country's international competitiveness, internationalisation strategies, SME development, skills development, R&D and innovation, and regional development. We have discussed some of the more recent trends affecting IPAs in Chapter 2.

Based on the survey results and the information collected in the interviews, Member States do not seem to share a common practice to link FDI promotion with wider economic policy objectives. A few Member States link investment objectives directly with overall economic objectives, Ireland being a classic example. In the Expert Meeting of 6 March eight of the 20 IPAs attending the meeting confirmed that they have 'a national joint thinking on investment strategy'. Again, Ireland is a good example of commitment to foreign investors; IDA's managing director argued that if it were not for the general public's positive opinion on FDI the government would not have managed to keep the corporate tax rate stable when negotiating its austerity package with the Trojka after the bail-out.

Despite the varied positions of IPAs in their country's economic policy setting, there are a few interesting observations:

- All EU Member States have established Investment Promotion Agencies responsible for marketing and promotion of FDI into their respective regions;
- Some of the IPA executives indicated that FDI targets are not related to the economic goals of the country, and economic policy is only used as a marketing tool when it is considered to be advantageous;
- A very limited number of IPAs in the EU is responsible for implementing regulations relevant to FDI, such as investor incentives programmes;
- FDI target sectors set by IPAs generally overlap with national priority sectors, yet with a focus on more 'mobile' sectors;
- The majority of IPAs are independent in their selection of target sectors, as well as in the setting of annual targets. Only two of the 18 IPAs responding to the survey report that they stopped targeting a certain sector due to a change in national policy priorities;
- The performance of IPAs is primarily assessed on the number of FDI projects, the financial investment value, and number of direct jobs created in each investment project attracted by an IPA;
- Despite the fact IPAs are not measured by their success to link FDI projects to the local economy, IPAs increasingly devote attention to the presence of local value chains. In general, the presence of local value chains and clusters is becoming an important location determinant for foreign investment projects and IPAs present locally emerging clusters in their outreach to target companies. IPAs have also started researching local value chains to identify business opportunities unique for targeted companies. FDI agencies cooperate closely with cluster managers in some regions of Europe to identify 'missing links' in certain clusters, which could potentially be filled with skills or technology existing in foreign companies;
- City- and regional agencies surveyed tend to be more involved in setting and implementing the economic development agenda of their jurisdiction than national IPAs. Two of the IPA executives interviewed indicated their involvement in setting the economic development agenda of the region. In both cases the local authorities and private companies active in the region decided to build on the momentum that was created with major R&D infrastructure investments financed by the national government;
- Investment promotion is a demand-driven marketing activity that is all about *selling* a region as a *product*. Despite the fact that IPAs increasingly devote attention to local value chains or are engaged in setting economic development objectives, the act of FDI promotion per se is to provide services to investors that aim to satisfy corporate profit maximisation strategies. It is not to satisfy supply-driven regional economic policy objectives. The extent to which IPAs understand this principle and put it into practice varies across agencies.

4.1.2 *Investor incentives*

IPAs' appreciation of the use of investor incentives programmes in attracting FDI provides for a rather mixed picture with two outspoken extremes of opinions.

There is a number of IPAs stating that incentives are a crucial part of the package they provide to investors, either to compensate for weaker parts of the investment climate or merely to direct investments to economically depressed regions. One IPA indicates that the second question asked by companies always refers to incentives. Within this group there are two IPAs that are responsible for investment promotion and the management of investor incentives programme; all other IPAs mainly refer to the responsible organisation and/or municipality with whom to negotiate. One of the two IPAs managing investor incentives programmes has focused its operations on the smooth, clear, and transparent communication and processing of incentives applications. Staff working on this incentives programme outnumbers investment promotion staff by a wide margin.

There is another group of IPAs in Europe that believe ERDF money should be used to allow the EU to compete as a block against locations such as USA, BRICs, and other locations.

The Head of Investment of one of the IPAs stated that 'companies do not care for (cash) incentives, but rather see governments work on getting the permits done, reducing red tape, and making sure that the quality of infrastructure is in accordance with investor requirements.

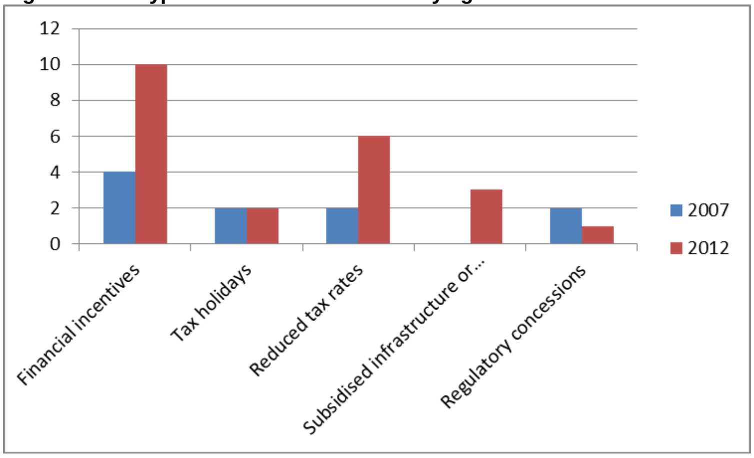
Next to the EU-financed incentives a number of Member States have developed state-financed incentives programmes. Most of these programmes are geared to increasing linkages between the FDI project and the domestic economy. Factors that play a role in granting incentives include the extent to which investors will make use of local subcontractors, hire and train local labour force, invest in research and development, etc.

In our survey we have asked the IPAs whether they provided any of the below incentives and when they started to provide these incentives:

- Financial incentives, such as grants and loans on concessional terms;
- Tax holidays;
- Reduced tax rates;
- Subsidised infrastructure or services; and
- Regulatory concessions.

Twelve IPAs responding to the survey provide incentives to investors. Seven of these IPAs now provide a wider variety of incentives compared to 2007; two reduced the number of incentives. Incentives are being used to attract companies into targeted sectors; six out of the 12 IPAs that were providing any form of incentives in 2011 grant higher incentives to companies entering into targeted sectors compared to companies entering in other sectors. Seven of the IPAs that responded to the survey questionnaire do not provide incentives at all.

Figure 4.1 Types of incentives offered by agencies



Source. Survey

The basis on which these incentives are paid out varies per type of incentive and across Member States, but typically varies between revenue-based and cost-based payment.

4.2 Current practice for tactics

4.2.1 Governance

Some researchers who have looked at the effectiveness of investment promotion agencies have looked at how their structure can influence their effectiveness. In general, they find that agencies with some private sector representation and a semi-autonomous state tend to be more effective than ones with a more public character.

Organisational theory also has plenty of research attempting to differentiate public and private-sector organisations, many of which help to dispel the oversimplified myth of efficient private-sector organisations versus inefficient public ones. To discuss the public character of organisations misses the wide variety of organisations and a degree of “publicness” as represented by their ownership structure, their mode of funding, and the accountability structures that they face:

Table 4.1 Typology of organisations

	Ownership	Funding	Mode of Social Control
Bureau (e.g., Bureau of Labour Statistics)	Public	Public	Polyarchy
Government Corporation (e.g., Pension Benefit Guaranty Corporation)	Public	Private	Polyarchy
Government Sponsored Enterprise (e.g. Corporation for Public Broadcasting)	Private	Public	Polyarchy
Regulated Enterprise (e.g., Private Electric Utilities)	Private	Private	Polyarchy
Governmental Enterprise	Public	Public	Market
State-Owned Enterprise (e.g., Airbus)	Public	Private	Market
Government Contractor (e.g., Grumann)	Private	Public	Market
Private Enterprise (e.g., IBM)	Private	Private	Market

Source. Perry & Rainey 1998

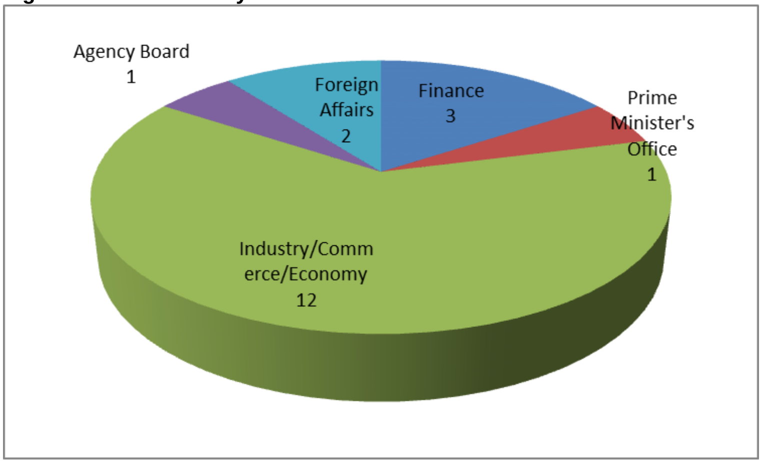
One study examined agencies around the world, analysing their governance structures showed, for example, that FDI flows were significantly lower in countries where the IPA is part of a ministry rather than an autonomous body, and also that private-sector representation on a Board of Directors had a positive influence on FDI flows (MIGA, 2004).

These studies and others that look at IPA performance worldwide need to be examined with one caveat—they combine agencies from developing and developed countries. This assumes that the role of an investment promotion agency is going to be similar in all contexts, which may not be the case. As one example, the performance of civil servants in Europe might be closer to their private sector counterparts than in developing countries, and as such, the effect of an IPA's autonomy on FDI flows may be lower than in a developing country context.

In Europe

Across the board, the IPAs surveyed have a comparable reporting structure. All but one of the IPAs report to a Ministry, mostly the Ministry responsible for economic or industrial development.

Figure 4.2 Main entity to which the IPA is accountable

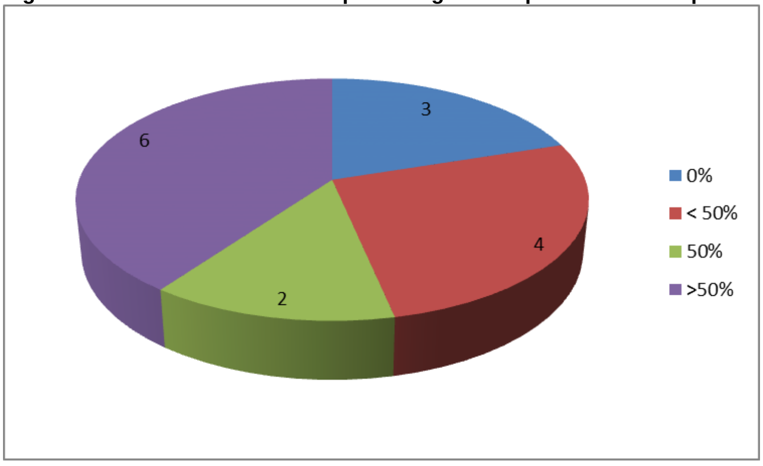


Source. Survey

This situation has been rather stable in most of the countries; only two of the IPAs reported to a different Ministry five years ago. One IPA reported a successful shift from reporting to the Minister of Foreign Affairs to the Tradecouncil within the same Ministry in 2011.

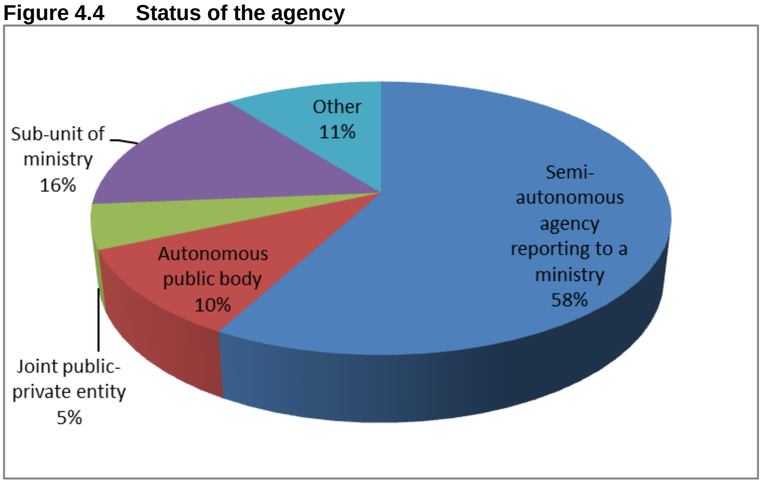
Most of the IPAs have a Board of Directors as independent advisory council. Fifteen of the 19 agencies have a Board of Directors, of which 12 have representatives of the private sector. Four agencies in fact have more than 80 percent share of private sector representatives in the board of directors.

Figure 4.3 Board of Directors - percentage share private sector representation



Most of the agencies that have filled out the survey have a status which gives them at least some autonomy, with the majority of agencies indicating they have a semi-autonomous status.

Figure 4.4 Status of the agency



Source. Survey

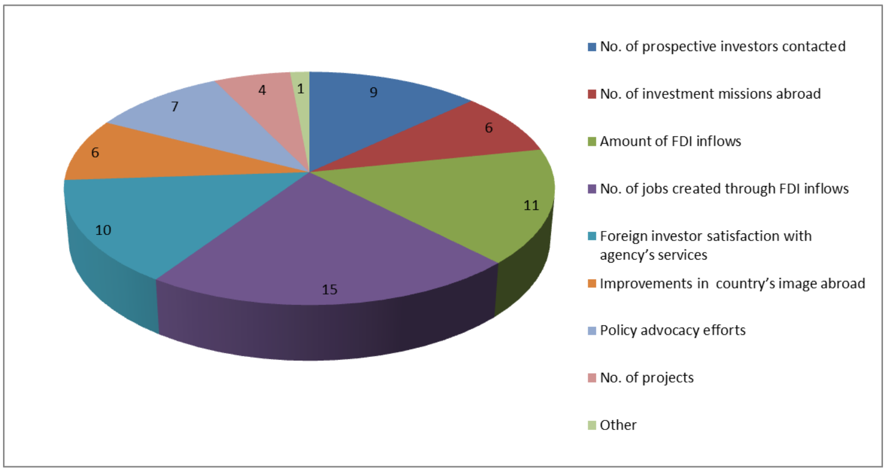
- Four IPAs report to have changed their status over time and became a semi-autonomous agency, to some extent thus disintegrating from the Ministry they are reporting to.
- Political interference in the position of IPA's legal status. One executive explained this is due to being an important player in bridging policy and implementation. This has made IPAs an interesting topic of discussion for various governmental departments and political parties. The demise of the once best practice IPA Welsh Development Agency in 2006 and the abolishing of Regional Development Agencies in the UK, as announced in 2010 and effectuated in 2012, are two examples of how political interference determined the future of investment promotion agencies.
- Two agencies surveyed are public-private partnerships and these are on city level: Frankfurt and Lyon.

The evaluation of performance done by IPAs falls into three different categories:
- Performance evaluation on mandate
- Evaluation of quality of service delivery
- Evaluation of staff performance (see section on staff below)

Performance evaluation on mandate

The performance evaluation of most investment promotion activities is done in a relatively straightforward and verifiable way. First and foremost IPAs are evaluated on outcomes rather than outputs. The interviews with the senior IPA managers confirmed that they steer on the basis of the number and/or financial value of projects they bring in and the total number of jobs being created. The chart below presents the feedback received on “How does the agency measure its performance?”

Figure 4.5 Indicators used to judge agency performance, and the number of agencies using that use the indicator



Source. Survey

All but one of the agencies surveyed use their own data to carry out performance evaluations, often enriched by external data sources such as European Investment Monitor, fDI Markets, the national Central Bank or their Ministry, Eurostat, and UNCTAD. Three agencies obtain reports of companies that have invested, mainly on total value and number of jobs created. Two agencies use external consultants to run surveys, combined with a satisfaction survey on IPA service delivery.

The interviews carried out with the various CEOs confirm this picture in evaluation techniques and in fact further accentuate it. 'Number of projects and jobs' consistently came back as first answer.

An additional criterion for evaluation agencies tend to look at is the 'quality' of projects. Although definitions of 'quality' vary among the agencies, it would typically involve an internal assessment of the quality of jobs created, existing R&D levels within the attracted company and the extent to which companies will add to local value chains or to the technological position of the region.

In three agencies, evaluation is taken one step further, weighting the types of jobs created. For instance, new projects in basic manufacturing would be scored lower than new projects in highly desirable areas, such as knowledge-intensive industries.

It is noteworthy that none of the agencies explicitly evaluates the extent to which foreign investments lead to backward and forward linkages with the domestic economy, skills transfer, or technology spill-overs. Although we have not tested this in great detail, the main reason for the lack of this type of evaluation appears to be that most IPAs view themselves as marketing organisations, not as development agencies per se. This is not to say, however, that spill-over effects do not receive attention of IPAs. Incentives programmes do tend to take into account the R&D intensity and intended linkages with local companies as evaluation criteria.

IPA evaluations are an important tool for policy makers to decide on the future and direction of the agency. There was one IPA reporting that the performance evaluation by default has impact on next year's funding and resources. Information on the type of activities attracted, the lead time for projects to materialise, the appreciation of the overall investment climate, and sector trends that are distilled from the evaluations is generally fed back into overall economic and industrial policy development within the countries surveyed.

Company surveys

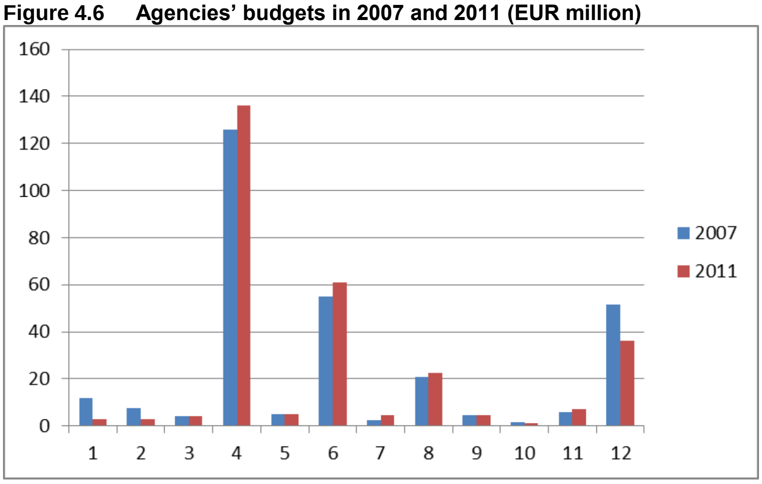
Of the 18 IPAs surveyed, seven indicate to receive investor reports on their projects. In general these reports provide more detail on the investment project itself, as well as indications why the investor chose the particular location. Two IPAs indicate these reports are used to better understand the company and its future global investment plans.

Client satisfaction surveys are not very common among IPAs. Two of the IPA s surveyed use external consultants to carry out independent audit of their performance. These consultants conduct a survey of new companies on the quality of assistance they received and the value that the company felt the IPA gave. One of the IPAs states that at least two-thirds need to be satisfied for the agency to receive a healthy score. The survey is also used to evaluate staff performance.

Annual budget

Of the 12 agencies reporting their budget figures for both 2007 and 2011, two agencies have experienced severe budget cuts of 75 percent (from EUR 12 million to EUR 3 million) and 61 percent (from EUR 7.4 to EUR 2.9 million) in four years time. Quite on the contrary one IPA saw its budgets almost double in four years time. One agency reported a 13 percent budget cut in 2013 compared to 2012. Average budgets focused on investment promotion alone were roughly around EUR 7 million in 2011.

Figure 4.6 Agencies' budgets in 2007 and 2011 (EUR million)



Source. Survey

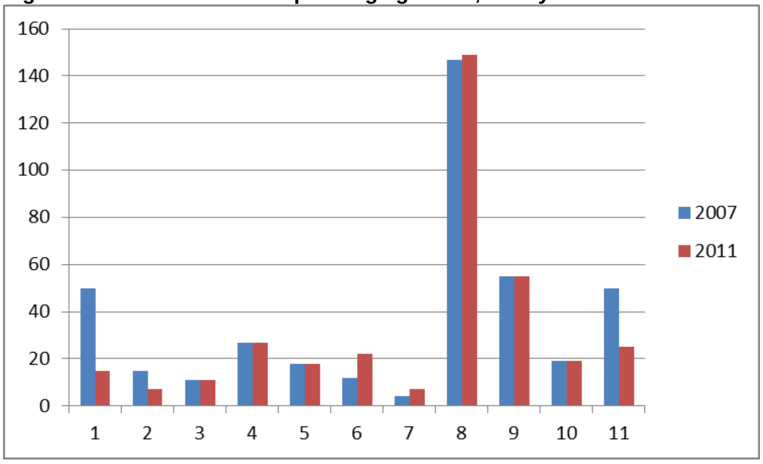
Two of the IPAs surveyed reported to have received income from private companies; all others are fully public funded agencies.

4.2.2 Staff

Similar to the discussion of governance, one would expect that better paid staff—and more of them—would lead to better performance in attracting FDI. The survey results are ambiguous in that they do not suggest a relation between IPAs' staff numbers and their success relative to the size of the economy in which the agency operates. It remains unclear at what point an agency reaches a point of diminishing returns when it comes to hiring new staff or offering them higher pay. One can speculate that the structure of an organisation would have a high impact on the efficiency of staff members.

The most dramatic changes that have occurred in the annual budgets of IPAs have obviously reflected in their staff numbers. Staff numbers went down by as far as 70 percent in one IPA and halved in two other countries. The same agency that saw its budget almost double in five years' time saw its staff increase from 12 to 22 full-time equivalents.

Figure 4.7 Staff size of responding agencies, anonymised



Source. Survey

Apart from these drastic changes the overall staff numbers within the other agencies have remained fairly stable. The staff numbers among IPAs have varied from anywhere between four and 150 staff, averaging 35 full-time equivalents.

Remuneration of staff, both in terms of size and accountability (incentives), will have the same influence on performance as overall resourcing levels and accountability at the organisational level.

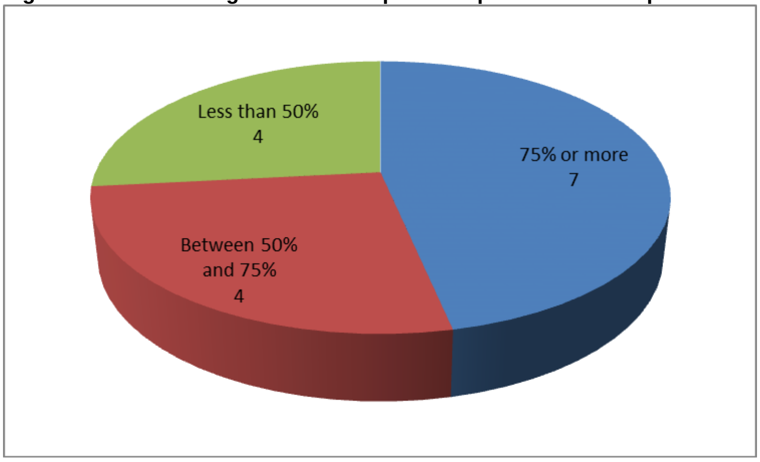
In addition to the basic incentives under which employees work, some discussion has taken place on the profiles that one would want in an agency. This discussion takes place on two levels.

On one level, there is discussion over the basic job skills required to do the job, with some consensus running around the skillset required for certain positions, as described in chapter 3.

On another level, an extensive literature on the differences in organisational culture between public and private organisations exists, with constant debate regarding the desire for employees with an “entrepreneurial” or “private-sector” mentality. ISPAT, the Investment Promotion Agency for Turkey, in its quest for this mentality for its revamped agencies in the last decade, only told incoming staff that they would be working for an agency attached to the government only after they had agreed in principle to work for the agency.

Survey results
The principle of having a private sector mentality in-house when dealing with attracting FDI from private companies seems to be well shared among the IPAs surveyed. Of the 15 agencies that answered this question the vast majority has a majority share of staff with a private sector background, with a minimum share of 15 percent. Two agencies exclusively employ people with a private sector background.

Figure 4.8 Percentage of staff with previous private sector experience



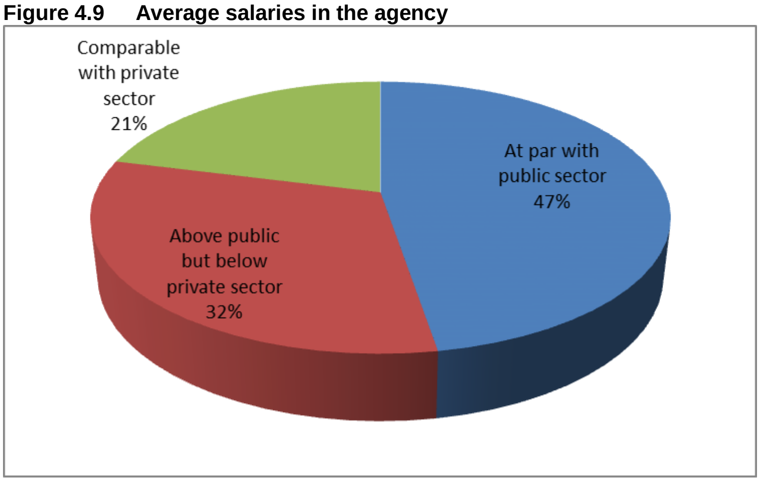
Source. Survey

In terms of remuneration packages and bonuses the picture is mixed. The survey results show that just over half of the IPAs offer their staff salary levels above the levels offered in other parts of the public sector. Four IPAs pay their staff private sector level salaries.

Nine of the IPAs offer their staff bonuses or other performance-based incentives. Contrary to what one might think, this is not a new phenomenon: all but two IPAs have staff incentives in place for at least the last five years and two IPAs use them since as early as 1998 and 1999. Individuals are typically evaluated based on the number of leads created and projects brought in. IPA management also looks at the "creativity" shown by staff in terms of getting prospective investors connected to the right people, have them visit the right sites, bringing in new benchmarking techniques, etc.

Performance-based incentives are provided by IPAs across all three average salary categories used in the survey. One agency indicated it stopped performance-based bonuses as per 2012.

Figure 4.9 Average salaries in the agency



Source: Survey results, n=19.

4.2.3 Networks, partners, and stakeholders

Five of the 15 national IPAs that filled out the survey questionnaire operate their *own offices* in the country. Within two of these countries there are independent regional development agencies operating alongside the national IPA's satellite offices. Total staff numbers in these regional IPA offices vary between six and 25. There is one IPA indicated to have 170 staff members in regional offices. One country dismantled its regional offices in 2008.

One country has an effective solution to finance and coordinate investment promotion activities in its regions. Together with four regions it has created a joint association that finances eight staff hired by the national IPA, yet located in the four regions. According to the national IPA this system has eradicated cross-regional competition and led to a greater buy-in to sell the country as a whole rather than the individual regions. With an increased focus on 'selling' regional clusters in their engagements with foreign investors, its physical day-to-day presence in the regions has furthermore allowed the IPA to be much more specific on business opportunities emerging across the country. It also changes the dynamic of accountability, which makes co-operation easier. Because these staff are financed by the national agency, they are also accountable to the national agency and its cross-regional goals as opposed to focussing exclusively on the region.[31]

Independent domestic offices trying to attract foreign direct investments into their jurisdiction are a commonly known phenomenon in EU Member States. Eight of 15 national IPAs report that regional development agencies operate in their country. Data collected on the presence of independent offices seems to underestimate the number of local and regional agencies active in any particular country. There is a number of Central and Eastern European countries that have set up Free Zones that carry out their own investment promotion function and we know of municipalities that try to attract FDI and/or manage large incentives programmes. These bodies were not reflected in the data, most likely due to a misinterpretation of the questions asked.

For those countries where independent domestic offices operate alongside national IPAs the coordination and cooperation of investment promotion efforts becomes an important additional and easily overlooked task for any IPA. Embarrassing examples exist of how investment projects were lost due to national controversies over FDI attraction, politically motivated discrimination of regions over others, and inconsistent messages from within the same country conveyed to one and the same company.

The bid to attract a gambling resort, Euro Vegas, to Spain is an example of what might be termed unhealthy competition. In mid-2012, Las Vegas Sands was looking to make a EUR16 billion investment in Spain. The country had already been chosen as the location of choice, but the investor was looking to attract bids from both Madrid and Barcelona. A competition between the two cities culminated with the winning bid—Madrid—adding regional tax incentives to the already significant ones being offered by the national government, including a reduction in the local gambling tax to 10 percent from the original 45 percent.[32]

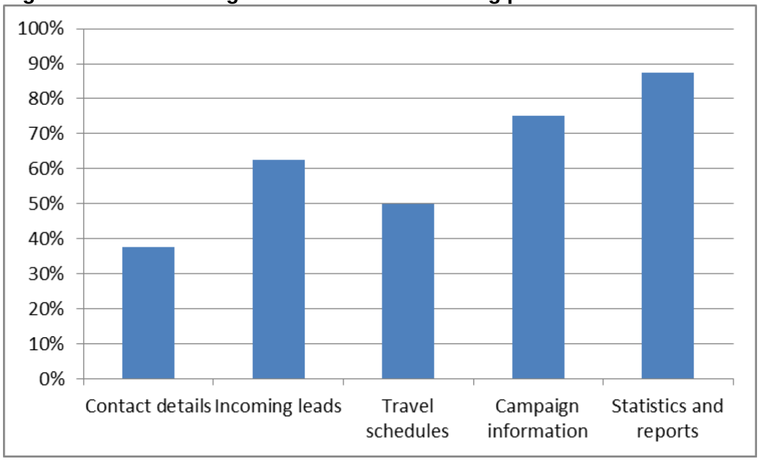
The IPAs interviewed and surveyed show a rather mixed picture of how countries share –and don't share- information and intelligence on possible investment projects. Two of the national IPAs report a well-established coordination and cooperation with investment promotion bodies at provincial, regional, city, and ports level. In one of the Member States all regional and provincial bodies have operated a joint Client Relation Management System for 15 years. In addition they meet every quarter in a national acquisition platform meeting and participate yearly in an investment promotion master class organised by the national IPA. This has culminated in a Covenant on cooperation that was signed by 16 organisations across the country. Besides the symbolic value of the Covenant the cooperation has resulted in the setting up of an Investor Development Programme that is geared at servicing incoming and existing investors and provides introduction to the right decision makers at

31 This is not to say that this is the only way to achieve co-operation, as will be discussed further in chapter 5.

32 Unhealthy competition implies competition between agencies that drives up the "cost" of landing a project to the detriment of a larger region or country. Unhealthy is relative term and will be interpreted differently according to one's perspective. From a Spanish national perspective, this example can be interpreted to be unhealthy because the role of the national government is to maximise the benefits to the country, and encouraging competition between the two cities in this situation provides no meaningful benefit. From the cities' perspective, this was a necessary competition to land much needed jobs. One could argue that the competition did lead to some healthy benefits given the across-the-board lowering of casino tax for all business, which one could see as an overall improvement of the business environment for this specific sector.

the different political layers, provides for networking opportunities with domestic companies, assists in dealing with visa and permit requirements, etc. An important element of this cooperation is the monopoly of the national agency to set up representative offices abroad.

Figure 4.10 Percentage of national IPAs sharing particular information with other promotion agencies



Source: Survey results, n=8.

Most of the national IPAs remain responsible for following up on a lead that comes in through its own project managers. One IPA, however, reports on how it shares 100 percent of all its incoming leads with the (relevant) regions and jointly decides on follow-up. It also shares travel schedules, campaign information, statistics and reports, and carries out a national shortlisting of best possible locations based on an internal national analysis to ensure the best proposition gets sent off.

Communication between national and regional offices appears to largely be informal and the level of sharing fluctuates per country. Only a few have signed memorandums of understanding, and those that do share leads according to official protocols that are aimed to reduce tensions over lead sharing.[33] All national offices share statistics and reports with their regional colleagues, but in a few cases, co-operation ends at this very rudimentary level.

Given the rising importance of regions and even cities for location decisions, the wisdom of limited co-operation needs serious questioning. Leaving the national agency largely in control of the investment promotion process does leave the investor with a single face, but it remains unclear whether national agencies are the primary entry point for investors who may already have identified particular regions in which they want to invest. In cases where investors directly approach regions, the lack of a strong regional counterpart—and an agreement with regions on what to do with leads that go directly to the regions—leads to a more fragmented investment promotion experience.

For follow-up of a particular lead, there is also some variety in terms of which agency is responsible for follow-up. In cases where the national agency is more dominant, leads may be shared with the regions, but responsibility for follow-up remains the national manager, who then uses the regions as a resource to assist with any investor inquiries or follow-up visits.

Partner networking

Network building has always been a key element of any kind of selling exercise, and investment promotion is no exception. What could be considered a chance is that network building is no longer

33 The effectiveness of these memorandums is up for debate, and having been a very recent phenomenon, data remains unavailable for testing. At the same time, despite any signed agreement, there will always be an inherent tension between sharing leads based on the principle of best region first versus equal and fair distribution of opportunities. Ideally, a national agency and its regions will come to an agreement which provides every region with priority in at least one sector; otherwise, the risk is uncoordinated promotion and unneeded competition and resource-wasting between the regions.

about building up a network of potential investors, but also about building up a local network. These networks should appear on a number of levels.

Local stakeholders

The key to good network building is to create a joined-up, day-to-day operational collaboration with organisations that have a direct stake in winning FDI, such as government agencies, trade associations, banks, and professional service firms. (McDermott 2010) Creating a coherent local network can ensure the most efficient means of understanding and promoting the local business environment, gaining the trust of those organisations that will have connections both within and outside the local community. This provides the agency with valuable intelligence, but also helps to hone value propositions as well as to tackle problems in the local business environment in a joined up way.

The wider local network

Related to social media and the now two decade-old trend for development agencies to focus on clusters of companies, some agencies—particularly at the regional level—are becoming more involved in developing connections between various stakeholders. The goal here is two-fold.

On the one hand, agencies can help to improve the local business environment, helping to connect the various elements of the business environment. So, companies suffering from particular technical problems can be connected with other companies or the appropriate academic researcher to solve those problems. The stronger the local companies, the better able they will be to partner with any incoming foreign companies. Oost N.V., the agency representing the Dutch province of Overijssel, considers network management to be one of their main goals. Their argumentation is that spending resources improving the of the local network will increase its ability to reach into wider networks, while at the same time helping existing businesses to survive and grow.

On the other hand, agencies can also use their command of the local network to reach out to foreign companies. For example, a local branch of an international company can be a useful source of intelligence on expansion plans of the parent company. Agencies can help to bring further investment from those parent companies by offering their support. The city of Lyon, for example, relies heavily on this approach, and feels that it provides the best value-for-money.

Good practice of using advocates

Advocates can be a valuable tool to reach out to foreign investors because they can provide a more “objective” conduit through which to reach out to investors. These advocates should be members of the business community with a strong relationship with existing foreign investors. They should have the support of a ‘business ambassador’ group of senior business/research figures that promote the location within their local and overseas networks.

In addition, it can be useful to use these influencers and opinion-formers to produce thought-leadership reports and white papers, which can be sent directly to influential contacts and via indirect communication channels (PR and third-party routes). These thought-leadership papers have the advantage of being primarily about a subject that interests a potential investor, which would then be associated with the location producing the material.

4.3 Current practice for operations

4.3.1 Image and brand building

Some third generation agencies still participate in general marketing, though this is more often done in conjunction with greater aims of a government. The city of Lyon, represented by the agency Aderly, began an image and branding campaign under the "OnlyLyon" in 2007, a programme that now has six people dedicated to it. The OnlyLyon campaign is one specifically aimed at the business community and works primarily as a networking tool, employing key ambassadors to represent the city at various events.

Many agencies find this kind of image and branding exercise expensive, which is one reason why some make the branding campaign a part of a larger focus for the city or region. This means, for example, building a brand that is intended to sell a region to more than just investors, but other types of visitors to the city. The most common form of cross-selling and one with the most obvious appeal is with tourism. This can work particularly well for well-known and visited cities, which will already naturally attract readers to its pages (which can include future investors, of course). Amsterdam, as an illustration, uses its well-established place brand I am**sterdam** as part of its investment promotion activities as well as a portal for other activities, such as tourism and expat services. The brand umbrella covered can be thought of like an "aftercare plus", caring not just about the company and the business environment, but also for the foreign employees that might work there and any foreign visitors to the office.

Private companies recognise the importance of place in creating a positive brand image for their products. Some German companies, such as Volkswagen, give an important place to the image of being a German company in their advertising, with Volkswagen's tagline being "Das Auto" in many countries (including the United States and Canada), as mentioned in the previous chapter. Swiss engineering is seen as being precise; Italian design as being elegant. These are not empirical facts, but rather impressions that have been built up over time. Place is important to companies, and investment promotion agencies can take advantage of these associations.

Branding knowledge and brands themselves, in fact, are some of the key assets that European firms offer to foreign companies. Tata motors purchase of the Jaguar brand, for all of its interesting political overtones, was as much a purchase of a luxury brand as an acquisition of factories and technologies.

Building a branding versus building awareness

One of the long identified good practices for investment promotion is to reach out to not only investors, but also to the consultants that provide location advice. Location advisers tend to be very conservative and will make what they consider to be safe recommendations.

In a European context, this can be particularly problematic for some of the smaller New Member States on the periphery of the Union. Because there are relatively few economic barriers between Member States, the smaller Member States have a particular problem raising awareness of their region.

In our interviews, Lithuania, for instance, mentioned that getting onto a long list of investment locations was difficult because they were not "on the map" of location advisors. They were a part of Europe, but also on the periphery of Europe. Their history was from Soviet times, while their connection was with Europe.

And indeed, their marketing materials struggled to find identify. For example, the marketing materials used for a general introduction to investors emphasise 1990, referring to how Lithuania had regained independence and had transformed itself from a command economy. The focus of independence as the start of their marketing message emphasises past and present Lithuania. Why remind the investor of what happened almost 25 years ago, especially since it would introduce questions about whether Lithuania had moved on from this command economy?[34]

Online communication is more than a website

One area in which good practice as discussed in various reports has failed to keep pace is with social media. The World Bank, for example, recently released their best practice manual for investment promotion agencies, dedicating an entire chapter to the subject of online investment promotion. Yet, the focus of this chapter is almost exclusively on promotion via websites. Reading these words would leave one with the impression that online investment promotion requires nothing more than a good set of programmers and Google optimisation policies.

Yet, online practice has moved far beyond the controlled environment of a passive and static website, but has moved to a stage that requires a more proactive and targeted management of one's online presence. In a world where Facebook, Twitter, and other social media giants have liberalised content creation and dissemination, agencies have only begun to grapple with how to manage their image and information about their region.

While the use of social networking can be tied partly to a desire to cut travel expenses, there's no escaping that new media would have still become an important new avenue to reach out and target new investors. While some may focus on the ubiquity of social media as one of the justifications for using this media, more important for those looking to market products (which includes locations) is the ability to find and target very specific groups of individuals. Social media offers a wealth of knowledge about communities of individuals and their interests, and provides a vehicle to reach them. However, the way investment promotion agencies will be able to take advantage of social media still needs to be determined.

Good practice lessons

Brand building is an expensive exercise best shared

Nonetheless, for all of the recognised importance of branding when selling anything from goods to services to a location, it can be a very expensive exercise, and it has been hotly debated about whether funds should better be placed into more targeted activities. Best practice in this case would suggest that branding should either be highly focussed, and used only to give face to networking activities. Or, if a more general marketing campaign is desired, then it should be attached to a broader campaign aimed to give brand recognition to a wider array of government services, such as with the I amsterdam campaign.

4.3.2 Lead generation

Targeting: both sectors and companies

Targeting is also a well-established motif of most European investment promotion activities. The mechanics of targeting have been available for more than a decade and are well discussed in manuals and other literature. Targeting means identifying sectors in which a region has a

[34] Branding wise, it might be better for Lithuania to introduce itself as being a piece of dynamic Europe, playing off the old Europe/new Europe distinction rather than comparing old Lithuania with new Lithuania. Poland's brand is very much viewed as dynamic and an interesting place to invest, and Lithuania could potentially tap into that brand image.

competitive or comparative advantage, and then comparing these with the size of various FDI flows. An agency looks for, in essence, an ideal product-market combination where both the product of an agency is strong, and companies in this sector are strong and looking to expand.

Over the past decade, targeting has become more and more specific. Agencies moved from targeting sectors, such as health, to very specific sub-sectors, such as nanotechnology in the health sciences.[35] This more specified targeting has allowed agencies to create more *bespoke value propositions*. In other words, moving to the subsectoral level has allowed agencies to create a more tailored and personalised pitch that will allow one region to differentiate themselves better from another.

One other trend of regional development that agencies have used to market their location has been that of industrial clusters. A hot topic since Michael Porter popularised the ideas in the 1980s, cluster theory—building from agglomeration theory—posit that companies will tend to locate close to a large group of like-minded companies. The theoretical reasoning behind this is sound. Once a cluster reaches significant mass, other companies will naturally gravitate to that location for the following reasons:
- An employee is more likely to locate in a city with many employment choices. It reduces the risk of taking on one position when an individual knows that they can easily look for another. This also tends to increase the overall skill level in that specific sector for the region.
- Many clusters tend to have as one of their anchors a high-education institute with excellence in research in the area in which the cluster excels. This can mean “spill-overs” of knowledge for members of the cluster.
- It can be easier to access clients, given that they will more likely fly to a region when they know that they can meet with multiple individuals.

Clusters in and of themselves are not new in terms of creating value propositions, but agencies are improving how they market them. In the past, the mere existence of the cluster in a specific sector (or subsector) would be marketed to other companies within that field. Now, some organisations are taking their targeting a step further, analysing the clusters for potential gaps within local value chains, and then marketing those gaps to the appropriate company. Agencies attempt to show organisations the immediate value they will accrue in terms of networks and future business if they should join the cluster.

Invest in Bayern, for example, has used this approach to attract companies to the Chemie Cluster Bayern. The goal of this cluster is to develop chemical innovations, and the agency had identified a gap for a company specialising in dialysis machines.

The 2006 Cluster Congress marked the launching of Bavaria's Cluster Initiative. The main objective of the state government’s launching of the clusters campaign was to promote the networking of and among Bavaria’s SMEs in a total of 19 clusters. These clusters were identified on the basis of: a well-structured business community featuring leading companies, high- capability suppliers and service providers; and agglomerations of universities, research institutes and of providers of vocational and ongoing occupational education turning out an abundance of highly qualified staff members. [Source: www.invest-in-bavaria.de]

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[35] A trend, it should be pointed out, that makes publicly available datasets more and more problematic for quantitative analyses. NACE codes do not always cover the subsectors that investment promotion agencies have chosen to target. For example, Invest in Brabant pursues companies in the semi-conductor industry, a subsector for which no completely appropriate NACE code exists.

The clusters aim to intensify ties among local players all across the State by providing networking platforms. Each cluster is managed by a cluster management team facilitating education, supporting of start-ups, assessing the needs for financing faced by cluster companies, and undertaking outreach activities on the international level. In this, cluster management teams function as an interface between companies active in the cluster and service providers maintained by the government of Bavaria, including Invest in Bavaria, the Bavarian Foundation for Research, Bayern Innovativ, and Bayern Kapital.

Invest in Bavaria plays a key role both in selling the cluster to international companies as well as to identify companies that could fill up 'missing links' that could improve the overall functioning of the cluster. One of the clusters where this has had concrete impact has been the biotechnology cluster. The biotechnologies cluster's brief is to interconnect the distinct geographical centres of biotechnology in Bavaria and to recruit companies and institutes located elsewhere in the state for the network. The cluster management team actively scouts technologies and products emerging from university research institutes, identifies research projects showing commercial potential, and showcases the cluster internationally.

For Invest in Bavaria the downturn in FDI attraction came in 2008, when projects approved got cancelled or postponed. A way for the IPA to overcome the decline in the number of projects was to focus more on specific industries, such as nano- and biotechnology, and environmental engineering, and to increasingly make use of its 'marketing toolbox'. From 2009/2010 Invest in Bavaria started to identify value chain gaps in the region, based on which it started identifying companies that might have the required technology in house to fill these gaps. In addition it put more focus on cooperation with their representative offices in USA, India, China, Japan, and Russia and increasingly cooperated with relevant cluster managers.

Together with the cluster management team Invest in Bavaria organises meetings, introduces technological developments and experts to foreign companies, engages with venture capital firms, etc. One concrete example provided in the interviews was an identified gap in technology for dialysis of kidney patients. The IPA identified foreign companies with the required technology and could use the presence of the cluster and companies already active in it to arrange for a mutual introduction and work out a detailed business opportunity. [Source: www.invest-in-bavaria.de]

Government policy to promote clusters, which feeds into investment promotion policy

Clusters can be developed by businesses themselves or can be encouraged by governments. These clusters, however, evolve from an existing industrial base. The government's role is not to directly subsidise those industries that it would like to develop into winners, but rather to create an environment in which existing companies can blossom into a more coherent network.

This is one reason why network management is a key component to any successful cluster policy. The government's role is not to impose solutions, but rather to facilitate communication so that stakeholders can find their own solutions, or attract others from the outside that can provide those solutions. Cluster policies need to increase co-operation within the region, forge a regional identity for industry and researchers alike, and advertise that identity abroad.

Sub-networks also build within larger ones and support various functions essential for a region's competitiveness. The networks need to support research & development and the exploitation of new markets. Networks also need to incorporate financing institutions to attract venture funds and partnerships to share resources. These networks are locally based, but also reach out and connect to the international community.

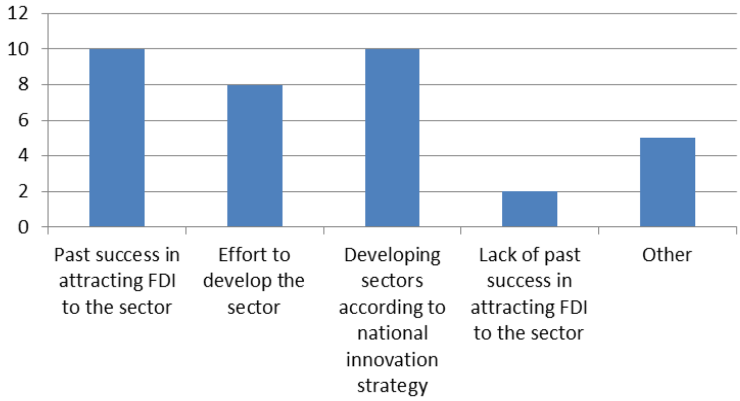
A good example of the importance of the government as a facilitator of networks comes from the renewable energy cluster in Denmark. The seeds for an industrial cluster were planted late in the 1970s. Many researchers focus on the role of government-set minimum prices for wind energy as well as other state-aid schemes in the industry's growth. However, the growth of a successful cluster in the area owes credit to the creation of a machine testing programme at the Risø National Laboratory in 1978.

The testing programme—with a certification element added a year later—was initially intended to support the Danish strategy to establish a "safe technical path" for wind energy, looking for gradual improvements on existing technologies rather than huge, ground-breaking leaps. The marketing strategy played into this approach, establishing market credibility with Danish technology that was reliable.

Companies were understandably hesitant about sharing their knowledge with government testers; however, a government incentive offering a 30% reimbursement on the purchase price for any turbine tested at the facility helped break down any resistance. This testing and certification had an important secondary effect. It helped to initiate the knowledge sharing and networks that are so key to any industrial cluster. Today, the Risø National Laboratory is considered a critical component in research and development of new wind technologies.

Western Denmark is now home to some of the leading firms designing wind turbines, namely Vestas Wind Systems A/S (in Randers) and Siemens Wind Power A/S (in Brande), who lay approximately 100km from each other. Foreign firms like Gamesa (Spain) and Suzlon (India) have also opened offices that conduct research and development. In addition to the facility at Risø, Aalborg University and Aarhus University have become leading centres of innovation in the field of wind technology.

Figure 4.11 Reason behind targeting particular sectors



Source. Survey.

Apart from three agencies surveyed, no IPA indicated that they were targeting particular sectors before 2007. No agency has changed their sectors that they began targeting.

Agencies identified a few reasons why they began targeting:
- As part of the national innovation strategy;
- Lack of past success in attracting investment to a particular sector that was considered an asset;
- Local competencies and accumulated knowledge;
- build on existing strengths;
- International FDI trends / emerging business models; and
- Increase success rate of agency.

All IPAs target BRIC countries, though three also target other non-industrialised countries

Finally, as was stressed by the former CEO of FrankfurtRheinMain during the Expert Meeting of 15 May, nothing starts big and many things that were once big are now extinct. The regional outfit for FrankfurtRheinMain started eight years ago and purposely did not focus on the large companies, usual suspects for targeting. It focused on smaller companies, nurturing the relationship with these companies, and built up a personal connection with these firms. Investors will need to feel welcome in the region they intend to invest in.

Good practice: Bespoke value propositions based on local understanding
Selecting sub-sectors and identifying gaps in local clusters (or global value chains) need to be completed, and evidence-based choices priority business/industry sectors sub-sectors made. This can allow an agency to produce a research-based 'hit list' of potential investors based on the fit between their value gaps and the value that a locations would add to a company.

A twin-track approach to targeting specific companies could be identified:
- Identifying high-scoring, closely matching companies
- Evaluating 'walk ins' and referred leads (McDermott 2010)

4.3.3 *Investor servicing and aftercare*
Over the last five years, aftercare has increased in importance at a regional level. Several IPAs have entered into cooperation agreements with regional agencies that allow them to provide aftercare by local account managers that understand the local circumstances in which companies have to operate. Aftercare has become more systematic and IPAs have developed information management systems and dedicated after care units that periodically carry out company surveys, regularly engage with companies and organise senior management engagements with senior Government officials and ministers. IPA practices in this regard include:

- A greatly improved aftercare service introduced based on collaborative partnerships with local authorities within the region
- Introduction of a strategic relationship management initiative to give better support to the largest and most important existing investors
- An official protocol of transfer of project from the national to the regional level, signed off by the CEOs of both organisations
- The financial crisis in selected Member States made companies evaluate their presence in its present location. Two IPAs stepped up in their aftercare and intensified their dialogue with the company and its headquarters, in close coordination with overseas network's contacts with headquarters
- As an integral part of its strategic change in approaching FDI from 2006, the agency has stepped up its efforts in after care. The national agency signed a covenant with 16 partners, including regional and city development agencies, port development companies, and provinces. The programme is focused on providing direct support to existing investors and flags obstacles in the local/national investment climate to the relevant authorities
- Regions carry out aftercare with national offices of foreign companies; national IPA deals with aftercare towards international HQs abroad where decisions are made

Systematic undertaking of aftercare is important to retain investment projects and to assess and influence decision making on follow-on investments that could focus on other or higher value activities. In addition investor aftercare allows IPAs to gain insight into investors' perceptions of the investment climate and to possibly translate this insight into advocating policy adjustments. Finally aftercare is a way to stimulate greater forward and backward linkages with the local economy.

4.4 IPAs response to challenges

While the following sections cannot be necessarily said to refer to IPA good practice, they do represent important reactions to current problems that they face. As such, with reference to section 2.4 on page 21, this section summarises the various ways how IPAs have tried to counter the challenges they have faced over the last five years. It also reports on suggested actions to take at European level to overcome these challenges.

4.4.1 Market reality and New venues for IPAs

- Introducing new target countries and sectors; by 2012 all IPAs surveyed had started targeting BRICs countries and five IPAs also focus on other non-industrialised countries. Five IPAs indicate that they have started targeting (new) sectors over the past five years;
- One IPA shifted its focus in the R&D sector from trying to attract greenfield projects to trying to stimulate M&As and joint ventures with local partners;
- To overcome a decline in the number of new projects IPAs have started to focus more on very specific industries such as nano- and biotechnology, and environmental engineering.

4.4.2 Measures taken to overcome country/region-specific challenges

- Regulatory reforms aimed at improving the overall investment climate, including lowering the corporate tax rate, easing the hiring and firing of staff , and reducing employer contributions to job protection plans;
- Introducing a ‘Strategic Agreement’ between large tax payers and the national Government to help companies employ local and create a platform led by the Prime Minister to exchange views on the country’s investment climate;
- Improving and maintaining consistency in national investment promotion strategy and implementation, with a refocus on aftercare, new sectors and national coordination;
- An IPA of one of the smaller countries in our population was merged with the national export promotion agency as they appeared selling the same value chain and targeting the same companies;
- The government incentive programmes of a few Member States were broadened to a wider range of sectors and prolonged in years. Mainly to compensate for negative factors of the investment climate;
- IPAs have started to find their own solutions to overcome immediate skills shortage problems in their region. These include the mapping of latent talent pools available[36] and providing incentives to investors to hire and train local labour force;
- Reaching out to consultants and other market multipliers to provide a more accurate picture of the country and its FDI potential, based on targeted advertising and marketing to improve image, organising networking events, and regularly feeding independent news items to promote the overall exposure of the country[37];
- To offset reduced productivity levels, the national Government and the IPA of one of the Member States have focused on understanding skills and potential development of industrial clusters. Both domestically and in their diplomatic offices abroad the IPA trained its staff to prepare more specific value propositions of these clusters;
- To offset the decline in high-value added projects and jobs attracted a few countries have drawn more attention to attracting projects requiring simpler skills and blue collar jobs in support of FDI;

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[36] See for example the Talent Map of Invest in Estonia http://www.investinestonia.com/

[37] This measure was taken by IPAs of relatively small and/or young economies. These IPAs face difficulties to feature on a longlist of locations due to a genuine lack of awareness among market multipliers of the country, let alone of its investment opportunities.

- To overcome the challenges that persisted on regional level one city IPA developed a dedicated strategy in line with the economic development objectives of the city, its need for R&D and innovation, and building on the investments done by the national government in R&D infrastructure and facilities.

4.4.3 Challenges at agency level

- With high staff turnover and a decline in overall staff levels, IPAs have taken measures to increase internal productivity levels. These measures have included providing more training opportunities in selling and negotiation skills, enhance cooperation and knowledge exchange between different departments and between new and existing staff, and expanding or rather intensifying the use of the internal Customer Relationship Management;
- FDI promotion in a Member State has focused on two drivers: grants to foreign and domestic companies and mitigating the impression/reality of bureaucracy. This included a refocus on tackling uncertainty and timing of grants;
- To better understand the ever-changing corporate location decision processes one IPA expanded its in-house staff specialising in sector intelligence.

5 The effectiveness of some European practice

Chapter 3 and 4 described investment promotion practices in place at strategic, tactical, and operational level in EU Member States and EU regions. The objective of this chapter is to select from the information collected practices in investment promotion and then to assess their effectiveness by means of a quantitative analysis. The purpose of this analysis is to assess whether a relationships can be found between the implementation of selected practices and the inflow of foreign direct investment into the selected Member States or regions.

5.1 A discussion of quantitative evaluation of good practice

Under each of the three categories of strategic, tactical, and operational levels in FDI promotion, many attempts have been made to determine what could be described as “good practice”. Particularly on the strategic level, this had led to a series of indexes evaluating some of the basic principles. For example, the Doing Business index focusses on some basic elements of starting and running a business, focussing on administrative burden with a mix of legal protections and tax obligations. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic.

Table 5.1 Doing business index

	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Denmark	5	33	8	14	6	23	32	13	4	34	10
United Kingdom	7	19	20	62	73	1	10	16	14	21	8
Finland	11	49	34	21	24	40	70	23	6	9	5
Sweden	13	54	25	9	35	40	32	38	8	27	22
Ireland	15	10	106	95	53	12	6	6	28	63	9
Germany	20	106	14	2	81	23	100	72	13	5	19
Estonia	21	47	35	52	14	40	70	50	7	31	72
Latvia	25	59	113	83	31	4	70	52	16	24	33
Lithuania	27	107	48	75	5	53	70	60	24	14	40
Austria	29	134	75	24	34	23	100	77	26	7	12
Portugal	30	31	78	35	30	104	49	77	17	22	23
Netherlands	31	67	89	67	49	53	117	29	12	32	6
Belgium	33	44	57	82	176	70	19	75	29	18	7
France	34	27	52	42	146	53	82	53	27	8	43
Slovenia	35	30	61	31	83	104	17	63	57	56	42
Cyprus	36	37	80	98	99	53	32	31	18	108	25
Spain	44	136	38	70	57	53	100	34	39	64	20
Slovak Republic	46	83	46	100	8	23	117	100	98	69	38
Hungary	54	52	55	109	43	53	128	118	73	16	70

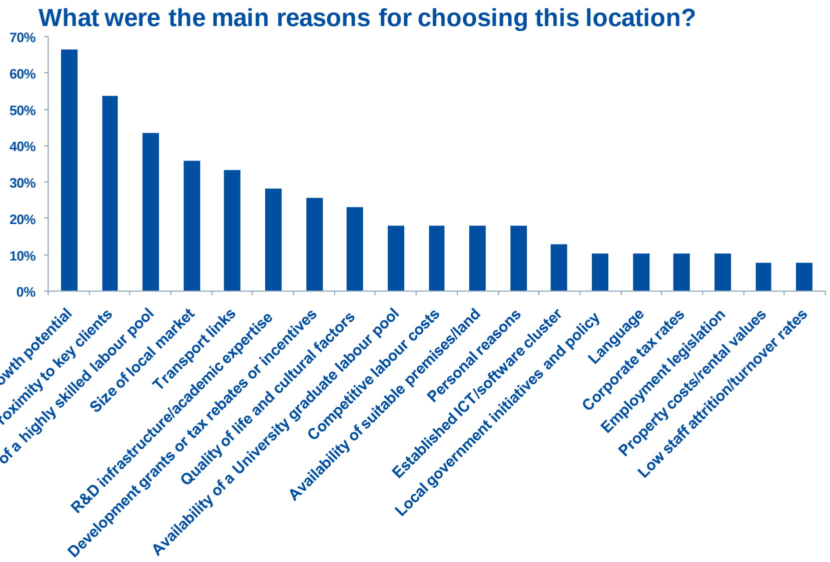
	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Poland	55	124	161	137	62	4	49	114	50	56	37
Luxembourg	56	93	33	63	134	159	128	14	32	1	52
Czech Republic	65	140	74	143	27	53	100	120	68	79	34
Bulgaria	66	57	123	128	68	40	49	91	93	86	93
Romania	72	68	129	168	72	12	49	136	72	60	102
Italy	73	84	103	107	39	104	49	131	55	160	31
Greece	78	146	31	59	150	83	117	56	62	87	50
Croatia	84	80	143	56	104	40	139	42	105	52	97
Malta	102	150	167	111	80	176	70	27	34	121	67

Source. World Bank/IFC, www.doingbusiness.org/rankings. The rankings for all 185 economies analysed were benchmarked to June 2012.

But businesses will choose to operate in environments that are considered less business-friendly. Mainland China ranks below every European country except for Malta, and both rank much lower than the lowest India, in the overall ease of doing business index. Yet, as mentioned earlier, developing countries are outperforming developed ones in terms of FDI growth.

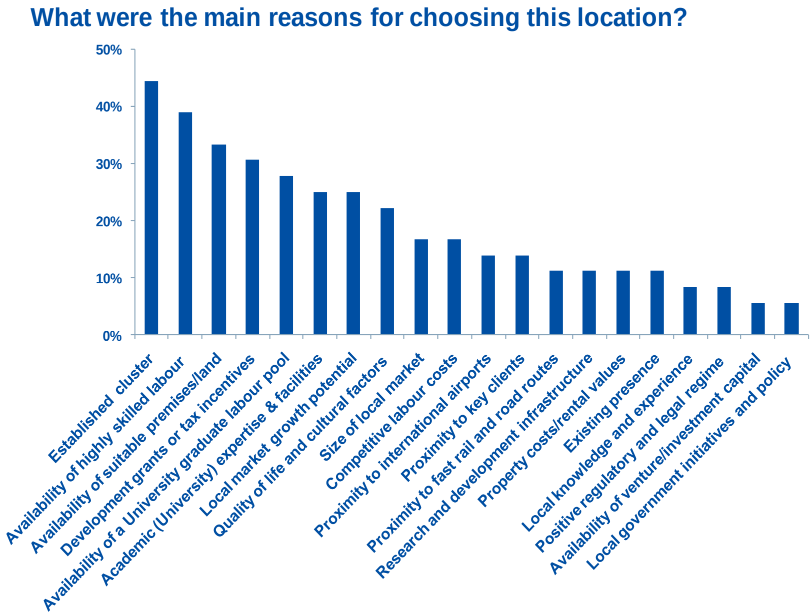
What is also critical to realise is that different industries have different reasons for wanting to invest within a particular country, and a different mix of conditions will either attract or deter investors. Looking at a recent study completed by Oxford Intelligence on the reasons why companies from various sectors locate in a particular area, one can see that reasons differ. To compare just two high-tech industries, ICT and medical technologies, highly skilled labour remains critical to both; however, the existence of clusters of companies only seems to matter in the medical field. Also important to notice is how low the regulatory environment ranks for companies when making their evaluation, shown in the two figures below. This is not to dismiss the real damage done by a poor business environment, but rather to simply temper the negatives associated with it.

Figure 5.1. Key Location Drivers in Recent ICT FDI Projects



Source. Oxford Intelligence

Figure 5.2. Key Location Drivers in Recent MedTech Foreign Direct Investment Project



Source. Oxford Intelligence

The strategic environment will depend heavily on the sectors that are being targeted, and as was addressed earlier, those decisions are being made increasingly on a local level. So the interaction of national and local policy, in combination with the sectors that have been chosen for targeting, are going to be critical to determine any ideal mix. Unfortunately, many of the existing studies on determinants of FDI to a particular region focus on a national or interregional level. This may allow for broad generalisations, but ends up missing the mark in terms of determining the best mix of policies to enact to attract FDI.

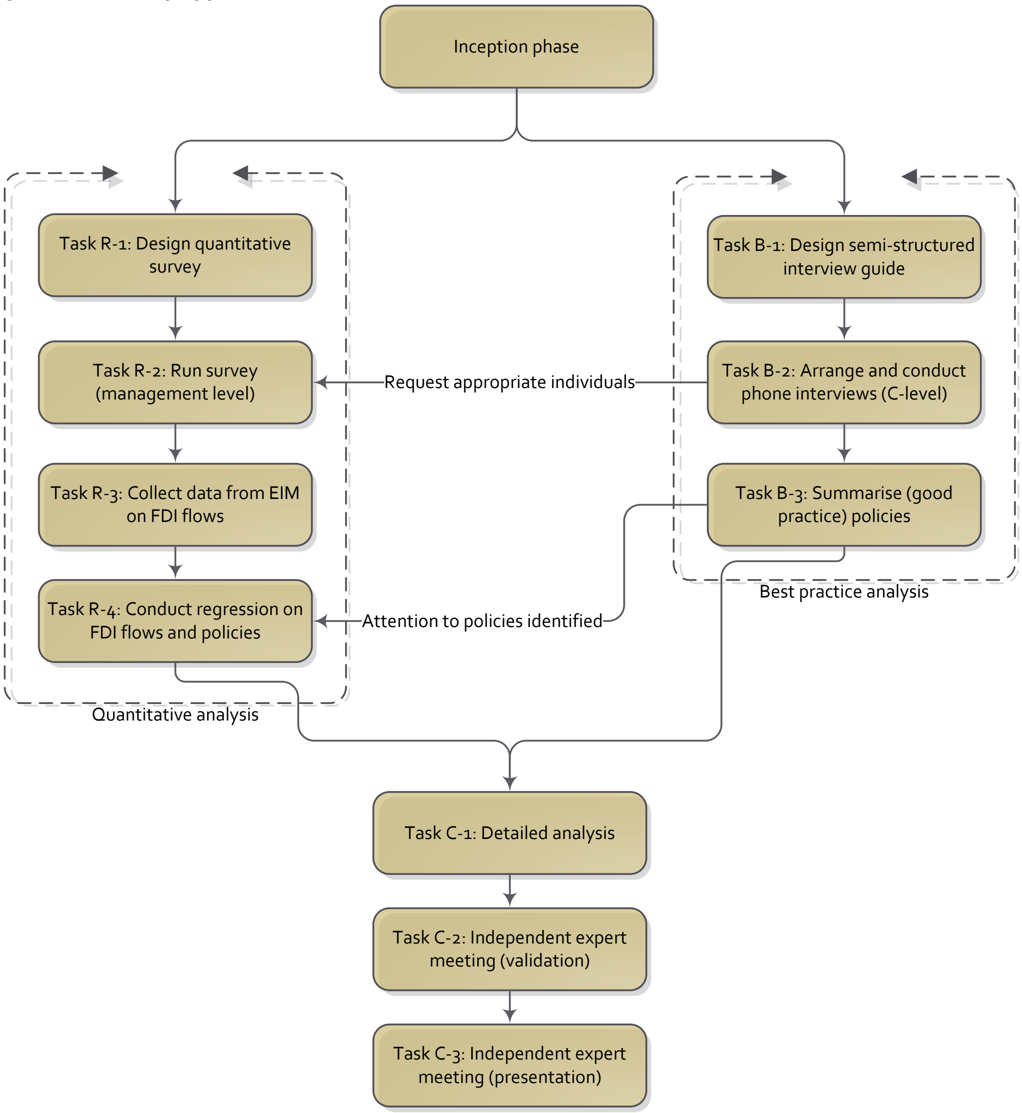
Figure 5.1 and Figure 5.2 indicate that investors' motivation differs across sectors. This reinforces the arguments in favour of smart targeting, one of the topics that is discussed later in this report.

5.2 Approach to the quantitative assessment for this report

5.2.1 Introduction

Our approach in carrying out this entire study can be summarised as in the figure below.

Figure 5.3 Study approach



The previous chapters provided information on the challenges that IPAs and RDAs are facing. Based on a framework of investment promotion actions at strategic, tactical, and operational level we have elaborated on policies implemented by Member States with the purpose to identify good practice that can be shared across the EU.

In this chapter, we aim to find the relationship between changes in FDI flows and actions taken by investment promotion agencies and we attempt to quantify the effectiveness of various strategies.

The methodology applied to identify policies on investment promotion is based on five pillars:

- *Quantitative data collection on FDI inflows.* We have collected FDI data per sector for the period 1997-2011 for the 19 Member States and nine regions that agreed to participate in the study. Data was taken from European Investment Monitor and IPA World;

- *A review of existing literature.* There is a wealth of literature available on best practices in investment promotion and effectiveness of investment promotion policies. See Annex B for the full bibliography of reports, studies, and articles we analysed;
- *A review of the latest IPA annual reports.* For all 28 IPAs we have analysed their latest annual reports on six main criteria. See Annex A for the full reports of these 28 agencies. The six criteria used were:
  - General description of agency;
  - Relationship with regions;
  - Level of autonomy;
  - Maturity of market;
  - Level of sectoral focus; and
  - Resource allocation to investment promotion.
- *Semi-structured interviews.* We developed a guideline for semi-structured interviews with C-level decision makers of Investment Promotion Agencies in EU Member States. Over the course of the study we have conducted 26 interviews: 18 with national IPAs and eight interviews with regional investment promotion or development agencies. These interviews have provided us with the IPA's views on current challenges, how they have overcome these and what they regard to be effective policies; and
- *An online survey of IPAs.* To collect information on investment promotion policies among national and regional IPAs we developed an online survey questionnaire. This survey questionnaire was designed in cooperation with the Commission and built on the IPA Census questionnaire that was used by the World Bank and Professor Javorcik in 2004, our own experience in working with IPAs and analysing investment promotion policies, and the initial desk research. 19 survey agencies have responded to the survey questionnaire.

5.2.2 *Identification of good practices*

The survey questionnaire and the guidelines for the semi-structured interviews focus on the key topics addressed in academic literature and studies from e.g. UNCTAD, World Bank, Waipa, and University of Vale.

In the interviews and through the survey we have asked questions that would help us identifying good practices in investment promotion. Section 4.4 summarised some of the measures taken by IPAs to counter the challenges they face. Although some of these measures are relatively recent and can as such not be labelled as 'good practice', the section did provide an overview of the sheer number and varied nature of practices implemented.

We have applied the following criteria in identifying good practices in investment promotion:

- The number of times IPA executives indicated the practices when asked the question 'What activities do you think are most effective in terms of meeting the goals of the organisation?'
- The number of times IPA executives indicated the practices when asked the question 'What has been an important success factor in dealing with (recent) challenges)?'
- The extent to which practices have been topic of discussions in earlier working papers and literature;
- The extent to which the practice identified would allow us to carry out a quantitative analysis of its effectiveness. This mainly deals with the start date of the identified practice and with the expected data availability to test the effectiveness of the practice; and
- The transferability of the selected practices to other Member States.

Based on these criteria, after carefully evaluating the information collected, and taking into account results of the Expert Meetings in Brussels on 6 March and 15 May 2013 we have identified eight good practices in investment promotion, which we have divided into three categories.

Table 5.2 Good practices in investment promotion

Category of good practice	Specific good practices identified
Successful targeting of FDI activities	**Strategic targeting of specific (sub)sectors and companies** **Identifying ‘missing links’ in domestic ecosystems and/or corporate value chains** **Targeting ‘upstream’ companies**
Better cooperation among investment promotion actors	**Cooperation in aftercare** **Lead sharing among national and other IPAs** **Aligning strategic, tactical, and operational instruments to attract FDI** • An endorsed (foreign) investment strategy • An unequivocal commitment to existing investors’ needs • Incentives schemes • Branding and media attention
Working methods / internal organisation	**Managing and operating the IPA as a consultancy-driven services organisation** • A top-down imposed change of mind-set from general image building into providing free consultancy services to foreign companies who are treated as clients • Introducing performance-based bonuses and other incentives **Forming (formalised) links with the private sector** • Setting up an independent advisory board with private sector representatives as board members • Partnering with location consultants and other multipliers that have access to corporate decision makers **Using tools to measure and evaluate the success of FDI promotion agencies effectively**

The tables below provide an overview of each good practice in investment promotion that we have chosen to assess. Tables 5.3 to 5.5 describe the specific good practices identified under Successful targeting of FDI activities. Tables 5.6 and 5.7 describe the specific good practices identified under Better cooperation among investment promotion actors. Tables 5.8-5.10 describe the specific good practices identified under Working methods / internal organisation.

It is important to note that the examples provided in the below descriptions are based on actual practices implemented by the IPAs interviewed and surveyed. Where possible, we have indicated the region or the name of the IPA that implements the practice. Due to the competitive nature of the market in which IPAs operate some of the IPAs have requested to treat the information they shared confidentially or to include the examples anonymously in order not to give away the competitive edge they are trying to develop and maintain. This prohibits us for some of the good practices to go a level deeper in describing how the activities are implemented in practice.

Table 5.3 Strategic targeting of specific (sub)sectors and companies

	Good policy practice case
Title of practice	**Strategic targeting of specific (sub)sectors and companies**
General description	Strategic targeting involves devoting resources and carrying out marketing and promotion activities to preselected sectors, sub-sectors, markets, and companies. This good practice reflects the shift most of the analysed IPAs have made from general marketing and promotion efforts to specialised lead generation.
Why is the practice identified as 'good practice'?	Nowadays, business locations and investment regions in general, are sophisticated products that need to be developed, marketed and sold in an extremely competitive international marketplace. General lead generation no longer suffices and agencies that promote their region need to identify the best match between their product (the region) and the market of potential foreign direct investors. ***What works:*** Strategic targeting involves taking the perspective of the potential investor and requires a thorough review of the (sub-) sectors and activities for which a region can feature on an investor's short-list of candidate locations. The result of such review is generally a shortlist of (sub-) sectors and activities that have the highest prospects to attract (foreign) investors. Developing such shortlist of sectors ensures that: 1. the right sectors and activities in the right countries are targeted; 2. the promotional activities and communication tools are fine-tuned to the target market; 3. building company target lists can be highly focused; 4. responses to investor enquiries are fine-tuned to the physical-technical requirements of investors. Target market selection requires specialised expertise and knowledge of global market trends in the sector, sector-specific location factors, and evolving corporate strategies. Apart from this, an IPA such as FrankfurtRheinMain stressed the importance of the 'human factor' in dealing with companies. This could give the region this extra push when investment decisions are made. ***What does not work:*** The approach taken in identifying target sectors and markets can be random and suffer from insufficient resources and time. Targeting based on a general analysis of the sector's relative performance in the domestic economy is likely to yield limited results.
Effectiveness of the good practice	The idea of targeting is for IPAs to enhance the effectiveness and efficiency of FDI attraction by devoting resources to a limited set of (sub) sectors and countries. This can be measured by i) an increase in FDI inflows in targeted sectors compared to when the sector was not targeted, or ii) a % increase of the share of FDI into targeted sectors in total FDI inflows into the region. According to the survey results the majority of IPAs started targeting particular sectors from 2007. Our analysis of FDI inflows into the regions that have participated in the study demonstrated a statistically significant relation between sector targeting and increased FDI inflows in targeted sectors versus non-targeted sectors (see section 5.3.2).
Policy conclusions	• Building corporate intelligence is a key factor in successful targeting. IPAs tend to follow the same companies and company executives receive e-mails, phone calls and general marketing material on a regular basis. The timing of reaching out with a tailored value proposition to the key person involved in corporate location decision making is key. This requires a thorough understanding of

Good policy practice case	
	companies' strategies and the ability to interpret companies' location behaviour, press releases and other announcements • Targeting is an effective practice to attract FDI regardless of the economic background of the country. The results of our quantitative analysis (see Section 5.3.2) demonstrate that targeting has been successful both in small regions and large countries, in emerging and mature economies, and by IPAs with small and sizeable budgets.
Recommendations for IPAs	• The basics of targeting need to be right: invest in collecting and maintaining accurate data on the region's profile and the international sectors targeted. • Invest resources in building company lists that are specific to a subsector. These lists should be informed from intelligence gathered from aftercare activities, databases, and other sources of information. • Review target sectors and activities on a continuous basis. Sub sector developments and market analysts' views need to be monitored to adjust targeting strategies within selected sectors.

The following table illustrates the number of projects from particular sectors targeted by countries involved in this study. In some cases, a clear spike can be seen in sectors before and after targeting; however, the full quantitative analysis, conducted in section 5.3, better illustrates the relationship because it takes into account a number of intervening factors (such as the quality of the business environment and other factors).

Table 5.4 FDI inflows before and after specific (sub) sectors were targeted rather than all sectors

FDI inflows before and after targeting (no. of projects)								
Targeted sector	**Targeting year**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
FrankfurtRheinMain								
Automotive Assembly	2007	1	2				1	
Automotive Components	2007	1	1		1		1	1
Business Services	2007	6	7	18	11	8	9	13
Chemicals	2007				1	2	3	3
Computers	2007					1		1
Financial Intermediation	2007	4	10	9	3	6	10	4
Security Broking	2007			2				
Software	2007	5	5	10	6	7	3	10
Telecommunications & Post	2007	2	1	1	2			
Wholesale	2007		1		1			
Ireland								
Automotive Assembly	2007							
Automotive Components	2007	2		1		1	1	1
Business Services	2007	6	9	8	19	10	22	15
Chemicals	2007	1		1	4	3	1	1
Computers	2007	4	2	1	2	3	6	5
Electrical	2007				1	2	1	
Electronics	2007	6	2	7	8	6	5	6
Financial Intermediation	2007	9	13	9	7	7	8	8
Food	2007	2	2	1	4	2	5	3

Targeted sector	Targeting year	2005	2006	2007	2008	2009	2010	2011
Machinery & Equipment	2007		2	3	5	3	4	2
Other Transport Equipment	2007						3	1
Other Transport Services	2007	1		2	1		3	
Pharmaceuticals	2007	7	9	11	7	11	7	11
Scientific Instruments	2007	5	4	4	10	4	7	7
Scientific Research	2007	1	1		4		1	1
Software	2007	10	17	19	13	16	13	23
Telecommunications & Post	2007	4	2	1	2	2	2	1
Finland								
Business Services	2010		2	3	13	3	7	14
Electronics	2007	2	1	4	2	2	3	8
Health & Social Work	2007							
Pharmaceuticals	2007		1		1		1	2
Software	2007		4	2	5	2	3	4
Telecommunications & Post	2007	1		4	1			1
Germany								
Automotive Assembly	2007	5	3	2	4	3	10	8
Automotive Components	2007	10	10	10	10	8	22	29
Business Services	2007	25	41	53	57	51	86	91
Chemicals	2007	15	20	15	13	17	24	22
Electrical	2007	4	11	15	16	23	31	46
Electronics	2007	8	32	18	27	24	29	30
Financial Intermediation	2007	4	14	18	14	13	24	13
Food	2007	6	8	5	4	11	15	14
Machinery & Equipment	2007	8	24	20	37	47	50	58
Other Transport Equipment	2007	2		3	9	7	4	10
Pharmaceuticals	2007	10	12	7	14	14	15	12
Plastic & Rubber	2007	3	6	7	9	13	25	15
Scientific Instruments	2007	4	3	4	8	18	18	17
Software	2007	20	19	52	43	45	49	63
Spain								
Agriculture	2012		1				1	2
Air Transport	2008		3	2	2	1	1	1
Automotive Assembly	2007	3	4	4	1	7	8	8
Automotive Components	2007	5	15	3	4	2	3	8
Business Services	2012	14	21	35	29	38	28	52
Chemicals	2012	7	13	10	7	10	4	14
Computers	2006	3	5	2	5	1	3	4
Electronics	2012	7	8	9	6	4	4	15
Food	2012	11	6	11	12	6	9	17
Health & Social Work	2008					1	1	
Leather	2012					1		
Machinery & Equipment	2012	2	10	9	11	11	7	16

Targeted sector	Targeting year	2005	2006	2007	2008	2009	2010	2011
Pharmaceuticals	2008	8	5	12	5	7	6	10
Real Estate	2012	1	3	6	3	1	2	1
Sale & Repair of Motor Vehicles	2007				1			
Scientific Instruments	2012	3	6	2	6	2	1	5
Scientific Research	2010	1		3	2	3	2	3
Software	2006	21	29	38	31	17	24	27

Source. Survey data.

As we addressed in Section 2.3.4, the way countries and regions have traditionally viewed foreign investments has evolved over time. The objectives of hosting governments in the late 1960s and early 1970s overshadowed the objectives of investors and there was a strong focus on control. In the 1990s, the dominant approach to FDI became liberalisation (Sauvant, 2012) and currently smart specialisation strategies of regions provide a solid basis for FDI promotion activities to strengthen regional development.

Targeting particular types of FDI also evolved over time. Whereas sector brochures, Investment Guides, advertisements in magazines and TV broadcasts, and general mailshot campaigns were used initially to ‘push’ a region and promote it to investors, the good practice described here clearly reflects a market driven approach to FDI promotion that has gradually been adopted by more and more –but not all- IPAs.

To some extent, the more advanced IPAs are already moving beyond this good practice. In the context of the Europe 2020 strategy[38] and especially the Communication on “Regional Policy contributing to smart growth in Europe 2020” (COM(2010) 553 final), some of the IPAs analysed have started to link their targeting activities to the region’s smart specialisation strategy. The two other good practices grouped under the header of ‘Successful targeting of FDI activities’ that we discuss now are reflections of this gradual development in the sophistication of targeting.

[38] COM (2010)2020 'Europe 2020: a strategy for smart sustainable and inclusive growth'.

Table 5.5 Identifying 'missing links' in domestic ecosystems and/or corporate value chains

	Good policy practice case
Title of practice	**Identifying 'missing links' in domestic ecosystems (such as clusters) or corporate value chains**
General description	The presence of local value chains and clusters is becoming an important location determinant for FDI projects in selected sectors (see for example Figure 5.2). This good practice attracts FDI while simultaneously stimulating local companies from two different angles: • IPAs invest in understanding a corporate value chain to identify 'value gaps', i.e. an obstacle to become more profitable that could be answered by the region. Targeting and value propositions are then based on offering a potential investor the opportunity to fill a well-researched market or business opportunity gap identified for this particular company. • Cluster managers or IPAs identify current or future 'missing links' in their regional clusters based on conversations with local companies that take place as a part of regular aftercare activities. Agencies ask about current and future business problems facing these companies and where they are seeking the resources to solve those problems. Targeting is then focused on identifying companies that might have the technology and/or skills to fill the identified missing link and for which an attractive business proposition can be developed.
Why is the practice identified as 'good practice'?	Selected regional and city agencies have become important local partners in setting the local economic development agenda and helping to develop clusters. Key argumentation behind such involvement varies from stimulating the development of regional innovation systems to leveraging of public infrastructure investments in e.g. R&D centres of excellence. Meanwhile there is a growing recognition of the appeal of a 'networked' environment to foreign investors and of the role foreign companies can play to fill gaps identified that hamper the growth of this very network. ***What works:*** IPAs such as Bayern and Lyon have been successfully aligning interests of private and public stakeholders into a shared vision of the direction the local economy should take. Invest in Bavaria has a large network of industry players, research institutions and public administration departments in the top 19 sectors and serves as a liaison between the key networks and investors. Lyon leverages its R&D centres, strong university, and its network of CEO Ambassadors. These measures have put both IPAs in a position that allows them to better understanding the local offering and to pick up earlier on the latest developments in innovation, technology, and rising starts across the sectors these clusters operate in. See also Section 4.3.2, www.invest-in-bavaria.de and www.onlylyon.org, and the agencies' description in Annex B for more information. ***What does not work:*** The government's role is not to directly subsidise those industries that it would like to develop, but rather to create an environment in which existing companies can blossom into a more coherent network.
Effectiveness of the good practice	Eight investment promotion agencies, of which five at regional or city level, have embarked on linking FDI promotion with cluster building. Lyon has achieved record-high FDI inflows, attracting 31 projects in 2012, up from 15 in 2005. Bavaria has been successful in attracting companies into the life sciences cluster based on the close cooperation between the cluster manager and the IPA.
Policy conclusions	• FDI promotion at this sophisticated level of targeting requires local companies, academia, cluster organisations, R&D agencies, and other stakeholders open to

	Good policy practice case
	collaboration and sharing of information. The government could have an important role to facilitate collaboration and sharing information. • This practice has so far mainly been observed at city and regional level but could relatively easily be adopted by small countries as well.
Recommendations for IPAs	• To replicate this good practice in other regions an IPA has to be aware of the resource implications. Identifying 'value gaps' in corporate value chains requires staff with specific research skills and the ability to translate these gaps into a business proposition that makes sense to the investor. • IPAs should refrain from implementing this practice if the principal body to which an IPA reports is unaware of the longer term commitment and resources required to be successful. The IPAs referred to here have become part of a larger team of public and private organisations that have agreed on and share the same vision for the economic development of the region. It took 4-5 years for Lyon to achieve record numbers in FDI projects. Building an understanding of clusters and understanding missing links requires time and effort.

A recent example of an IPA that has stepped up on its targeting, in close consultation with the private sector in the region, is Flanders Investment and Trade (FIT, the regional IPA of Flanders, Belgium. As from early 2012, FIT has explicitly moved away from using independent opinions and objective indices on macroeconomic indicators as arguments to convince companies to invest as it realised it needs to understand what companies think and how they make location decisions. As former Chief of Cabinet of the Ministry of Economics, FIT's new Head of Investment started to look into a New Industrial Policy for Flanders, and subsequently shared this policy to develop an action plan with the private sector. Some of the key action points of the NIP are:

- Flanders as lead market: to become test lab of leading plants of the future to subsequently near source it to another location;
- Smart specialisation and clusters: Flanders encourages spin-offs by providing budgets to universities based on the spin-offs they have launched per year. In Leuven they created more than 100 start-ups in 5 years' time. These budgets have now been matched with seed capital and Flanders pushed 120 business angels to work together and opened up this capital for foreign investors to start incubators;
- Competency Development: a cluster is only smart if it combines knowledge of the triple helix. FIT will invest far more in training programmes and education to create the seed to grow; and
- Supporting Infrastructure: substantial upgrades in infrastructure are required to deliver on NIP.

FIT has now laid out a new strategy that links FDI target sectors and activities to the FIT. This has affected FIT in the following ways:

- It set-up four divisions working on four types of activities across six sectors: R&D, Service and Maintenance (S&M)+HQ, advanced logistics, and advanced manufacturing (new composites, renewables);
- FIT focuses on 10 location drivers that are either key investor expectations or current weak points in the Flanders investment climate.
- More personalisation. It reconfigured brochures into activity guides that proof its skills to take the investor by the hand.
- FIT increased its lead generation by almost 50 percent and is expecting to reach higher conversation rates in the coming months/years due to the stronger focus of its activities.
- FIT appointed staff that are sales driven, knowledgeable of private sector, resilient, self-confident, avail of a certain endurance and understand that the IPA is contributing to our society. It also introduced the Balanced Scorecard for performance evaluation.

To become test lab of leading plants of the future was exemplified by the way FIT currently looks into the role the local economy could play in building the electric vehicle of the future. This links to the next good practice we discuss here, i.e. 'Upstream targeting'.

Table 5.6 Targeting 'upstream' companies

	Good policy practice case
Title of practice	**Targeting 'upstream' companies**
General description	Investors are being identified earlier than ever before. The large companies tend to be the historical targets and this is where competition is fierce. Some of the IPAs interviewed have further professionalised their targeting by identifying rising stars among technology based start-ups and SMEs in targeted sectors with a high likelihood to enter into cross-border investments in the medium run. These companies are referred to as 'upstream' companies because they are higher up in the sales pipeline of IPAs –meaning it will take more time to materialise into a genuine lead- than companies traditionally targeted.
Why is the practice identified as 'good practice'?	Identifying companies that our bound to internationalise compared to targeting companies already active in cross-border activities has a number of benefits: • Every database of IPAs targets the same large companies; • It allows IPAs to lock on to a company even before it invests and comes into the IPA's sales pipeline; • To seed rising stars in locally emerging ecosystems could yield higher growth prospects for the entire ecosystem; and • If you can build a relationship with a company being the recipient of some investment and it starts to grow there will be a tendency for them to stay. ***What works: (Example: Paris Region)*** • A key element in the strategy of Paris Region is the focus on innovation and smart specialisation. It focuses on R&D hub locations and locates its foreign offices where main technology points are. This is why the company set up an office in Tel Aviv, despite the fact that Israel is not a typical FDI source country. • The organisation has started to work more closely with Paris companies and clusters, simply because they are able to identify companies that the Region would likely be able to attract. • Paris Region recently started to help local companies develop and expand abroad. French SMEs developing abroad will also develop back home.
Effectiveness of the good practice	IPAs such as Paris Region, Andalusia, and Frankfurt have indicated that they increasingly target medium-sized companies and technology based start-ups. Engaging and building trust with these companies is a long process that would typically take 3-5 years to materialise. An indicator of effectiveness of the practice could be an increased share of start-ups and SMEs in total number of investment projects. Although some of the IPAs did report such increase, we do not have data to substantiate this.
Policy conclusions	• Targeting is becoming more and more sophisticated. Some IPAs have taken an innovative approach to further narrow down the list building of target companies to a limited number of technology start-ups and SMEs. This trend is seen as both a threat and an opportunity for IPAs, as it is a practice that allows IPAs to distinguish their product from their main competitors. • Targeting upstream companies is a resource and time-intensive activity with potentially long lead time.

	Good policy practice case
Recommendations for IPAs	With reduced budgets and resources in many of the IPAs interviewed targeting upstream companies is a decision that needs to be taken with care. The high pressure on research capabilities, sector knowledge, communication skills, and management information systems requires strong management control, monitoring mechanisms, and political stakeholders that understand the long lead times to generate success.

Table 5.7 Cooperation in aftercare

	Good policy practice case
Title of practice	**Cooperation in aftercare**
General description	Since roughly five years there is an increased awareness among IPAs of the need for aftercare. Aftercare has become more systematic and IPAs have developed information management systems and dedicated after care units that periodically carry out company surveys, regularly engage with companies and organise senior management engagements with senior government officials and ministers. Several IPAs have entered into cooperation agreements with regional agencies or Chambers of Commerce that allow them to provide aftercare by local account managers that understand the local circumstances in which companies operate.
Why is the practice identified as 'good practice'?	Systematic undertaking of aftercare is important to retain investment projects and to assess and influence decision making on follow-on investments that could focus on other or higher value activities. In addition investor aftercare allows IPAs to gain insight into investors' perceptions of the investment climate and to possibly translate this insight into advocating policy adjustments. Finally aftercare is a way to stimulate greater forward and backward linkages with the local economy. ***What works:*** • A greatly improved aftercare service introduced based on collaborative partnerships with local authorities within the region. The IPA has a formal arrangement with their local authorities to provide support to investors and using the authorities as their agent to maintain a regular and frequent contact with companies; to support companies in expansions and to really understand problems investors might face early on. Through this more stable arrangement, a better *early warning* mechanism is in place on expansion plans and signalling problems the investor faces. This has *increased the resource* available to FIT to engage in for after care. (Flanders). • Introduction of a strategic relationship management initiative to give better support to the largest and most important existing investors. Against the backdrop of 2008-2010 when investors were downsizing, the IPA selected about a 1000 strategic companies that were assessed to bring the highest value in terms of employment, being a global brand, and having innovation technology capacity. These companies were strategically account-managed by the IPA and its partners, organised through the IPAs CRM and followed up with an e-compliance system that would log all interactions with the company and monitor whether all partners in the service delivery chain towards the investors lived up to their obligations and response time to actions. They also appointed a government minister as the most senior account manager, supported by a team of sector specialists and IPA staff. (UK). • Introduction of a more comprehensive aftercare support to every new investor,

	Good policy practice case
	to help them connect with the business community, local partners, and to the national Trade Services. After the nine RDAs in England were scrapped and replaced by an odd 40 Local Economic Partnerships (LEPs), the national IPA engaged with the LEPs and other partnerships and the sector specialists to be closely involved in a '360-degree' support account management team. Sector specialists play a key role in this as they know other companies in the sector the investor could liaise with and can help to build connections.360 degree complete support available. This has worked particularly well with companies that need more support in e.g. finding suppliers, finance, etc. (UK). • An official protocol of transfer of project from the national to the regional level, signed off by the CEOs of both organisations, making explicit the transfer of the client from a national IPA account manager to a regional IPA account manager to avoid confusion between agencies. (Germany). • The financial crisis in selected Member States made companies evaluate their presence in its present location. Two IPAs stepped up in their aftercare and intensified their dialogue with the company and its headquarters, in close coordination with overseas network's contacts (Ireland). • Organise and host Investor meetings of leading CEOs to meet with political figure heads to discuss the business environment and potential ways to improve it (Estonia, Lyon). • As an integral part of its strategic change in approaching FDI from 2006, the Dutch agency has stepped up its efforts in after care. The national agency signed a covenant with 16 partners, including regional and city development agencies, port development companies, and provinces. The programme is focused on providing direct support to existing investors and flags obstacles in the local/national investment climate to the relevant authorities. • Regions carry out aftercare with national offices of foreign companies; national IPA deals with aftercare towards international HQs abroad (Finland). ***What does not work:*** Aftercare as an afterthought: ad hoc aftercare activities in times when business is slow. Aftercare needs continuous attention, follow-up, and feedback to the client.
Effectiveness of the good practice	• Among the IPAs interviewed, estimates of the share of reinvestments and expansion vary between 40 to up to 75 percent of total annual FDI inflows. • IPAs from the Netherlands, Ireland, Estonia, Lyon, Flanders, and North Rhein Westphalia have all confirmed the importance of feedback and support from foreign investors active in the region have played in shaping their FDI promotion strategies. • The extent to which aftercare activities and support have helped to intensive links between the foreign investor and the domestic economy has not been monitored structurally by IPAs.
Policy conclusions	• Cooperation and competition among FDI agencies co-exist. Concerted marketing efforts avoid spending resources in vain and prevent from sending out conflicting messages to investors; • Country size and the regional economic profile are important determinants of how aftercare is organised. National IPAs tend to dominate in smaller countries and relatively young economies. The more mature economies with sizeable regional economies and independent development agencies working on regional level tend to enter into some form of cooperation, with a varying degree of formality but typically based on the principle that local actors are best

	Good policy practice case
	positioned to carry out aftercare activities; • Aftercare reconfirms the investor that its presence in the region is appreciated. Both IPAs and governments have made use of these long and established relationships both to determine their strategies to overcome the economic crisis and to signal to corporate headquarters and potential investors that the region is a good place to invest.
Recommendations for IPAs	Implement dedicated customer relationship management systems specific to aftercare and that can be selectively shared across regions. On one level, these systems should track visits to local businesses and facilitate reports on those visits. At the same time, these systems should facilitate the sharing of intelligence and information that can feed into lead generation activities, such as mapping skills and other resources in the region (important researchers, knowledge, companies) that can be used for value propositions. These aftercare solutions can be done in house or be outsourced, depending on the level of resource available to the task. In general, given that the majority of jobs come out of aftercare activities, the majority of investment promotion activities should also be dedicated to aftercare.

At the Expert Meeting of 15 May the representative of Italy shared the concept of a central ‘DeskItalia’, which was adopted at the end of 2012. DeskItalia has initiated a new way of cooperation in the pre- and aftercare activities of the 20 regions and the central authorities in Rome engaged in FDI promotion. The pre-care part of the cooperation focuses on the regions to prepare the grounds and to reduce regulatory obstacles that emerge at local level once a foreign investor comes in. With regard to aftercare, DeskItalia is to ensure that complaints and suggestions about required policy changes communicated by foreign investors are picked up on national level, as well as to build up a pipeline of offer and to look for capital.

	Good policy practice case
Title of practice	**Lead sharing among national and other IPAs**
General description	For those countries where independent domestic offices operate alongside national IPAs the coordination and cooperation of investment promotion efforts becomes an important additional and easily overlooked task for any IPA. Examples exist of how investment projects were lost due to inconsistent messages from within the same country conveyed to one and the same company. The IPAs interviewed and surveyed show a rather mixed picture of how countries share –and don’t share- information and intelligence on possible investment projects. Local circumstances matter: smaller countries with mature economies are more likely to have formalised cooperation than larger and emerging economies in Europe. This fact sheet presents well-established coordination and cooperation mechanisms with investment promotion bodies at provincial, regional, city, and ports level in two small and mature economies: Netherlands and Austria.

	Good policy practice case
Two examples of lead sharing:	In the Netherlands, all regional and provincial bodies have operated a joint Client Relation Management system to share leads for 15 years. In addition they meet every quarter in a national acquisition platform meeting and participate yearly in an investment promotion master class organised by the national IPA. This has culminated in a Covenant on cooperation that was signed by 16 organisations across the country. Besides the symbolic value of the Covenant the cooperation has resulted in the setting up of an Investor Development Programme that is geared at servicing incoming and existing investors and provides introduction to the right decision makers at the different political layers, provides for networking opportunities with domestic companies, assists in dealing with visa and permit requirements, etc. An important element of this cooperation is the monopoly of the national agency to set up representative offices abroad. In Austria, nine regions have independent IPAs. Cooperation between these regional IPAs and the national IPAs is established and enforced nationally. • The ABA has a clear set of standards for internal and external client satisfaction that are shared with regional IPAs. • After identifying the project, the national IPA takes the lead with regional IPAs in a supporting role. After identifying the client's needs, the regional IPAs are contacted to submit their proposals. The national agency judges the proposals submitted, and they pass the best one to the investor. • A client oriented approach is critical: ABA works with internal deadlines to the regional IPAs to come up with their best project proposals. If deadlines are not hit or information is lacking, the proposal will not be included in the information to the client. • Because agencies have independence, not all leads are passed to the national agency, with one region maintaining no contact. • The national agency takes a neutral approach towards client needs and does not care if the investment will be placed in a poor or rich region. • While the regional IPAs are responsible for aftercare, the national agency does keep in contact with clients.
Effectiveness of the good practice	• Cooperation in the Netherlands has saved the independent regional IPAs from needing to set up offices abroad, which saves on resources. As the geographical and economic areas these IPAs represent are relatively small on a global market scale, this approach is likely to be the most effective and efficient way to generate leads for the Netherlands in the countries targeted. • All but one regions of Austria voluntarily abide by the principles set by the ABA. Given the high autonomy of the nine Bundesländer this is a clear indication of the effectiveness of the top-down way leads are shared. After a steep decline from 256 in 2008 to 158 FDI projects in 2009, ABA reports that it has managed to increase this number to 201successful FDI projects in 2012.
Policy conclusions	• Austria, which has strong national powers, is able to co-ordinate with its regions through the authority that it has been granted. This allows it to present a united and co-ordinated front to investors. • The regional IPAs, Port development companies and city IPAs in the Netherlands are typically owned and financed by the respective Province or city they operate in and function completely independently from the NFIA. Acquisition meetings, master classes, covenants and alike can be seen as measures taken by the NFIA with a purpose to share knowledge (and good practice) and to keep track of what happens in other regions of the country.

	Good policy practice case
Recommendations for IPAs	Lead sharing should be done transparently, which it must be emphasised, is not the same as sharing all leads. In cases where regions are asked to provide competing bids to a national agency, and the best one (or two or three) are then passed on to an investor, it would not be in the best interest of healthy competition to share all information on competing value propositions. An agency must identify evaluation criteria in which every region will have a legitimate opportunity to bid—assuming it is the right investor. This means having a clear idea of the unique selling points and solutions that each region has. If criteria always side towards the strongest regions, then regions will circumvent the national agency to find their own leads, leading to duplication of effort and potential confusion for the investor, if they happen to be approached multiple times by the same country.

Table 5.8 Aligning strategic, tactical, and operational instruments to attract FDI

	Good policy practice case
Title of practice	**Aligning strategic, tactical, and operational instruments to attract FDI**
General description	Aligning strategic, tactical and operational instruments refers to the discussion in chapter 3 of this report. Investment promotion activities are more effective if they align with greater policy goals of a region or country, such as a focus on innovation in science and technology or "going green".
Why is the practice identified as 'good practice'?	One of the reasons why for example Ireland and Lyon have been successful in attracting FDI is that they have an overarching (Foreign) Investment Strategy that was developed and endorsed by all key stakeholders. Any decision, measure, or activity at tactical or operational level would then follow from this strategy. ***What works: (Example: Ireland)*** In the context of the austerity package negotiated with the Trojka the first challenge that IDA encountered was to reinvigorate FDI. A first key activity in this process has been to engage with the key partners, which included the CEOs and CFOs of foreign companies operating in Ireland. Promotion deliberately focused on keeping tier 1 anchor firms also from a marketing perspective, as it would resonate to media and Irish credibility. Once appropriate tier 1 firms had been approached, remaining resources would go towards emerging MNCs, as now companies are 'multinationalising' at an earlier stage. The tier 1 firms and brands were also asked to feature in strategic advertising for each of the targeted sectors and in video testimonials. Finally, IDA used media and newly developed apps for marketing and spreading information about investment promotion. ***What works: (Example: Lyon)*** From 2005 Lyon has a dedicated strategy in line with economic development objectives of the city, focused on the need for R&D and innovation. It started leveraging the two nationally funded iconic R&D centres of excellence and embarked on an OnlyLyon marketing and branding campaign that integrates Lyon's attractions to live, work, and invest in the city. It has an Investors Club of 100 CEOs that are regularly briefed on new developments. As a result of its success, Lyon has had stable funding and staff resources for the past 6 and coming 2 years.
Effectiveness of the good practice	• FDI in Ireland has grown over the last three years and contributed to increases in employment, exports (with 90 percent coming from FDI), and balance of payment. This resulted from a policy that was FDI friendly. • Lyon has reached record high FDI inflows, with city FDI moving up from 15 projects in 2005 to 31 in 2012. It reports that 99 percent of all projects attracted are a result of the strategic integration of FDI promotion with endogenous growth, local academics, and the political support of the municipality. These record high figures are an immediate effect of the shared vision developed between all stakeholders in 2005.
Policy conclusions	To enhance the effectiveness of the IPA, senior IPA managers would benefit from an endorsed national/regional investment strategy that goes beyond IPA's responsibilities and brings on board a broader range of decision makers.
Recommendations for IPAs	• The common trend is that FDI is located around biggest cities, where the value propositions are strongest. The strategy for FDI should focus on regional solutions in partnership with stakeholders.

Table 5.9 Managing and operating the IPA as a consultancy-driven services organisation

	Good policy practice case
Title of practice	**Managing and operating the IPA as a consultancy-driven services organisation**
General description	FDI promotion has moved away from targeting companies of interest to the region to looking how the region can be of interest to companies. IPAs have started targeting and engaging companies to attract their projects based on their profit maximisation strategies. This services driven approach requires a different mind-set of staff and organisation, important on three issues: • *Culture:* even in the most customer-focused organisations, a shift from 'features' to 'solutions'-based marketing is a fundamentally different way of working. Thinking about the features of the region ('static' facts that a region offers) generally leads to an inward looking focus on the region, looking at generic features that will appeal to any company from a particular sector. Finding "solutions" (more 'dynamic' answers to client demands) for a company means identifying the business problems that they face, and presenting the elements of the region that will help them to face that specific business problem[39]; • *Relationships:* the shift here is from inward- to outward-looking relationship building and to strengthen and reinforce relations with overseas offices, companies, and multiplier networks; • *Branding:* general image building shifts to branding the location as a business of success to link and associate it with business opportunity and long term certainty. Building awareness towards target market is specific and tailored.
Why is the practice identified as 'good practice'?	A radical shift in mind-set of staff and management from general promotion into understanding and servicing the information needs of corporate decision makers and consultants involved in cross-border activities improves the responsiveness of an IPA and service delivery to investors. ***What works:*** • Speed, sales orientation, thinking one step ahead, knowing the country's competitive advantage, and understanding the need of your clients; • A powerful CEO with market drive; • Staff adaptability to change and awareness on private sector dynamics; • Back-up from key shareholders (i.e. Government) in terms of budget reallocation, a new set of Key Performance Indicators and lead time before success materialises; and • Develop value propositions as individual as possible based on segment by segment analysis of sector and thorough research of targeted companies. ***What does not work:*** The most important barriers to effective implementation are related to staff behaviour and impatience of key stakeholders as a certain lead time is involved before the effects of this new approach lead to increased FDI inflows.
Effectiveness of the good practice	The six IPAs that have radically taken on a more service-oriented approach confirm that it has improved their responsiveness and service delivery to investors. The effectiveness of this practice is mainly in: • improving effectiveness and efficiency of investor outreach activities by better understanding and responding to investor needs; and • understanding subsequent steps in corporate decision-making and influencing

[39] One might consider this to be an important component of smart targeting, as it forces agencies to think from the perspective of individual companies rather than collective groups.

	Good policy practice case
	decisions in each step through communicating bespoke value propositions. The results of our study confirm the effectiveness of this good practice: our quantitative analysis of FDI inflows demonstrated a statistically significant relation between implementing this practice and increased FDI inflows. See section 5.3.4.
Policy conclusions	Transforming an IPA into a services organisation requires leadership to push through a services-driven style of working in a procedure-driven public environment.
Recommendations for IPAs	Transforming an IPA into a services-driven organisation is likely to be one of the most effective measures to be a successful IPA, even though it will yield limited success in the short-run and requires time and new skill sets. This transformation is best imposed top-down, with a management team that sets the example to build a team that is sales-oriented, understands investor questions and have answers in place, is knowledgeable of the private sector, is resilient in dealing with clients, has the endurance to cope with disappointments and the versatility to deal with the challenging environment it operates in. this approach allows staff to better understand the investors perspective and make smart targeting easier

Table 5.10 Forming (formalised) links with the private sector

	Good policy practice case
Title of practice	**Forming (formalised) links with the private sector**
General description	Formalising links with the private sector means keeping regular contact with industry, both in how the agency is run, in marketing the region, and in evaluating the business environment. The private sector should be central to all facets of the operation from image building to aftercare.
Why is the practice identified as 'good practice'?	The idea of formalised links with the private sector is one where employees who have private sector experience might be in a position to better understand the needs of investors, which will have positive spill-over effects on IPAs' performance in attracting FDI. ***What works:*** • FIT has a performance based management contract with the government since 2006, based on governmental Key Performance Indicators (KPIs), which are then translated into operational KPIs. Staff are evaluated based on the Balanced Score Board, a common way to evaluate quantitative and qualitative performance of staff in a.o. the consultancy sector. • For Estonia, setting up the Foreign Investors Board started in 2009 has proven to be an effective networking tool. The IPA and the government meet with CEOs 3-4 times per year to discuss current economic issues and company matters. The IPA reports that 70-80 percent of FDI are reinvestments of international companies already active in the country. • For a number of small countries on the periphery of Europe it has proven vital to engage with consultants, real estate organisations, and the large accountancy firms for them to be aware of the investment opportunities the countries provide.
Effectiveness of the good practice	• Invest Lithuania confirms that engaging with multiplier organisations has increased the number of times the country has featured on a long-list of locations considered by investors • The results of our study confirm the effectiveness of this good practice: our quantitative analysis of FDI inflows suggests that IPAs with a quasi-government status are performing better than IPAs that are part of a governmental department. The same correlation applies to having private sector representatives in the Board and to having employees with private sector experience. Having average salaries in the agency higher than average public sector salary levels has a negative correlation with FDI inflows, based on the analysis carried out here.
Policy conclusions	Earlier studies on performance of IPAs in developing countries confirm the correlation between links with the private sector and increased FDI inflows. There are a few successful IPAs in our sample that do not have formal links with the private sector. One might reasonably expect that the performance of civil servants in Europe would be closer to their private-sector counterparts than in developing countries.
Recommendations for IPAs	• Hire staff with previous private sector experience; • Set up an independent advisory board with private sector representatives as board members; • Partner with location consultants and other multipliers that have access to corporate decision makers.

Table 5.11 Using tools to measure and evaluate the success of FDI promotion agencies effectively

	Good policy practice case
Title of practice	**Using tools to measure and evaluate the success of FDI promotion agencies effectively**
General description	All IPAs evaluate their performance. The evaluation of performance done by IPAs falls into three different categories: • Performance evaluation on mandate; typically IPAs are evaluated on the basis of the number and value of investment projects they attract and the number of jobs being created; • Evaluation of quality of service delivery to clients; and • Evaluation of staff performance.
Why is the practice identified as 'good practice'?	Evaluations are an important tool for IPA management to decide on the future and direction of the agency and for policy makers to use in policy development. Information distilled from the evaluations on the type of activities attracted, lead time for projects to materialise, the appreciation of the overall investment climate, and sector trends are generally fed back into overall economic and industrial policy development within the countries surveyed. One IPA reported that the performance evaluation by default impacts on next year's funding and resources. ***What works:*** • Performance evaluation on mandate to feed back into overall economic and industrial policy development within the country or region; • Request investor reports to better understand the project and the reasons for choosing the location, as well as to understand the company and its future global investment plans; • Complement internal data with external data sources; • Use external consultants to run surveys among companies that help evaluate IPA quality of service delivery; • Integrate the evaluation of IPA performance into aftercare programmes; • Next to number and value, evaluate the 'quality' of projects. Although definitions of 'quality' vary among the agencies, it would typically involve an internal assessment of the quality of jobs created, existing R&D levels within the attracted company and the extent to which companies will add to local value chains or to the technological position of the region; • Use weighted criteria in measuring IPA and staff performance, i.e. jobs brought in for R&D are valued higher than those for M&A or retail FDI; and • Evaluation of staff performance on service orientation, adaptability to rapidly changing environment, creativity in attracting investors' attention
Effectiveness of the good practice	FDI promotion is predominantly a publicly funded activity. Transparent and outcome based evaluation of performance is critical to sustaining funding and thus securing the long term sustainability of the IPA. Staff evaluations are essential for management to ensure the right skills sets are available for the right job, to monitor effectiveness of staff, and to monitor job satisfaction to control staff turnover.
Policy conclusions	Performance evaluation is a common activity among the IPAs surveyed.
Recommendations for IPAs	• Consider regular client satisfaction surveys among new companies on the quality of assistance they received and the value that the company felt the IPA gave. The survey can then also be used to evaluate staff performance; • As IPAs engage in networking and cluster building, it is worth considering how to measure IPA's success in support of building locally emerging clusters.

5.2.3 *Selection of good practices for further quantitative analysis*

The very nature of carrying out interviews with IPA senior managers implies that some of the good practices we have identified have only existed for a short time. This immediately impacts on the likelihood that the effectiveness of the practices can be analysed quantitatively, although we collected qualitative evidence during the interviews to indicate that these are - at least 'potential' - good practice. A good example of such practice is the 'upstream' targeting of SMEs that has recently been picked up by a few agencies. We have incorporated these in the previous sections as these policies are worth exploring t transfer to other Member States. We will, however, be forced not to take them into account in the quantitative analysis.

As such, based on data availability and on possible approaches conveyed in already existing studies on IPAs, we distinguished the most suitable methodology that could be applied in our IPAs analysis. Given the data availability, especially data that will be used as a proxy for good practices in investment promotion the empirical analysis is limited, and it might be difficult to find expected and meaningful effects. Furthermore, it should be pointed out that we use proxies for good practices in investment promotion, which might also mitigate our results.

Considering the above we will apply empirical analysis only for the following three good practices in investment promotion:

- Strategic targeting of specific (sub) sectors and activities;
- Forming (formalised) links with the private sector; and
- Moving from general image building and branding activities to becoming a consultancy-driven services organisation.

5.3 Quantitative analysis of three identified good practices

5.3.1 *Introduction*

In an attempt to quantitatively demonstrate the validity of the identified good practices, this study has collected survey data from 28 investment promotion agencies in the European Union (with 19 providing partial or full responses). The amount of data collected limits the possibilities of analyses and a number of caveats for the data analysis need to be kept in mind, such as that data might not necessarily be comparable. Also, IPAs have changed status and have high staff turnover, meaning policies have not always been consistent, and that data patterns have not always been available within one agency.

5.3.2 *Strategic targeting of specific (sub) sectors and activities*

As mentioned earlier in this report, sector targeting has been one of the long-identified good practices, though our survey indicates that targeting has only really begun in earnest from 2007. Hence, we repeat the test of whether sector targeting has an effect on attracting FDI and how does it affect inflows of FDI. In contrast to other studies, we use the number of projects as recorded in the European Investment Monitor as a benchmark for inflows rather than a Euro value to allow for comparison across national, regional, and city levels.[40]

In our analysis we have adopted a similar approach as Torfinn Harding and Beata S. Javorcik (2010) use. Using the information from the online survey that was conducted of 19 IPAs in the sample, we were able to identify targeted sectors by a particular investment promotion agency and also the year when they started targeting a specific sector. Thus, we use the difference-in-difference approach in our analysis to investigate if sectors targeted by an IPA received more FDI

[40] The fDI Markets database tries to capture investment values at project level, but the accuracy of this data cannot be ascertained as a large share of these values is estimated. Companies tend not to share this data.

inflows in terms of number of projects. We examined the post-targeting period in relation to the pre-targeted period as well as non-targeted sectors.

In particular, we estimate the following model:

$$FDI\ inflow_{cit} = \alpha_0 + \beta_0 Targeted\ Sector_{cit} + \beta_4 Potential_{cit} + \gamma_{ci} + \gamma_{ct} + \gamma_{it} + \varepsilon_{cit}$$

Our analysis is based on 50 sectors with 19 IPAs in the sample (15 national IPAs and 4 regional IPAs) from 1997 to 2011. The dependent variable in our regression is the inflow of foreign direct investment into sector *i* country *c and* at time *t* expressed as a number of projects that attracted FDI per sector. The main coefficient of interest is a dummy variable *Targeted Sector* (see Table 5.13 for the description of the variable).

We have also included the countries' ranking on UNCTAD's Inward FDI potential Index[41] (*Potential*) as proxy for business conditions. This variable has been included on the premise that attractive locations will be more likely to attract further FDI—if one has an attractive product, an investor is more likely to seek it out.

Since this Index is only available on a country level, we used national equivalence for the four regional IPAs in the survey. Furthermore, we have included three-fixed effects: country-industry, country-time and industry-time fixed effects. Respectively, these fixed effects are meant to control for the heterogeneity of sectors in different location, for country's business environment, and for shocks to supply of FDI in particular sectors, respectively.

5.3.3 *(Formalised) links with the private sector*

The idea of formalised links with the private sector is one where employees who have private sector experience might be in a position to better understand the needs of investors, which will have a positive spill-over on a quality of investment promotion agency. In order to assess what impact the formalised links with the private sector has on the FDI inflows, we focus our empirical analysis on 50 sectors, 19 IPAs and the time period 2005-2011. The choice of time period is determined by the availability of data. We can also identify from the survey data that from 2005 IPAs tend to be more stable.

In identifying how the (formalised) links with the private sector affect the performance of FDI inflows, we have chosen inflow of FDI into sector *i* and country *c* for the period 2005-2011 as dependent variable. FDI inflows are expressed as the number of FDI projects attracted per sector). We have chosen a number of proxies such as *Quasi, Board, Staff, Salary, Size* in order to empirically test this good practice (please see Table 5.13 for a more elaborate description on the variable specification). As well as in the previous analysis we include included the countries' ranking on the Inward FDI potential Index (*Potential)* as a control variable. In order to control for

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41 UNCTAD's Inward FDI potential Index measures an economy's attractiveness to foreign investors based on the following variables:
- GDP per capita;
- The rate of GDP growth over the previous 10 years;
- The share of exports in GDP;
- Average number of telephone lines per 1,000 inhabitants;
- Commercial energy use per capita;
- The share of R&D spending in GDP;
- The share of tertiary students in the population;
- Country risk;
- The world market share in exports of natural resources;
- The world market share of imports of parts and components for automobiles and electronic products;
- The world market share of exports of services; and
- The share in world FDI inward stock.

In our analysis, we have used the ranking of each of the countries covered.

unobservable host country heterogeneity and global shocks that could affect specific sector in our analysis, we have included country fixed effect and sector fixed effect. The model specification is as follows:

$$FDI\ inflow_{ci} = \alpha_0 + \beta_0 Quasi_{ci} + \beta_1 Board_{ci} + \beta_2 Staff_{ci} + \beta_3 Salary_{ci} + \beta_5 Size_{ci} + \beta_4 Potential_{ci} + \gamma_c + \gamma_i + \varepsilon_{ci} \quad (1)$$

5.3.4 From general image building and branding activities to becoming a consultancy-driven service organisation

A radical shift in mind-set of staff and management from promoting the general image and overall investment climate into understanding the needs of corporate decision-makers and providing information towards those needs is also one of the good practice in investment promotion that we are empirically testing. In order to empirically assess this investment promotion activity we focus our attention to 21 IPA over 1997-2011 time-period. In this analysis our dependent variable is FDI inflows in terms of total number of project into country *c* at time *t*. The main variable of interest is *Consultancy,* which is described in Table 5.13.

As in the previous analysis, we included the Ranking on the Inward FDI potential Index (*Potential)* as a control variable. . In order to control for unobservable host country heterogeneity and global shocks that could affect specific sector in our analysis, we have included country fixed effect and sector fixed effect. The model specification is as follows:

$$FDI\ inflow_{ct} = \alpha_0 + \beta_0 Consultancy_{ct} + \beta_1 Potential_{ct} + \gamma_c + \gamma_i + \varepsilon_{ct}$$

The table below gives an overview of variable that used in the empirical analysis to assess good practice in investment promotion.

Table 5.12 Variables for analysis

Variable	Description	Data sources
FDI inflow	FDI inflow is determined in terms of No. of projects per sector that attracted FDI; for the regression (1) we also use FDI inflow in terms of jobs created per sector.	Oxford Intelligence data
Targeted Sector	Is a dummy variable, which is equal to 1 if country c targeted sector i at time t otherwise zero.	Data comes from the survey that was conducted specifically for this study. Question 22.
Performance	Performance based remuneration. Is a dummy variable which is equal to 1 an IPA uses bonuses or other performance-based incentives otherwise 0.	Data comes from the survey that was conducted specifically for this study. Question 20.

Variable	Description	Data sources
Potential	Inward FDI Potential Index measures an economy's attractiveness to foreign investors, capturing factors (apart from market size) that are expected to have an impact. We have used the countries' ranking on the Inward FDI Potential; a lower value identifies better performing countries, while a higher values identifies worse performance.	UNCTAD data.
Quasi	A quasi-government entity, if an IPA is either sub-unit of ministry, an autonomous public body or semi-autonomous agency reporting to a ministry, and zero otherwise	Data comes from the survey that was conducted specifically for this study. Question 3.
Board	A share of private sector representatives in a Board of Directors.	Data comes from the survey that was conducted specifically for this study. Question 6.
Staff	A share of staff in an IPA with private sector experience.	Data comes from the survey that was conducted specifically for this study. Question 21.
Salary	Salary level paid by an IPA. Is a dummy variable equal to 1 if the agency paid wages comparable or above private sector level otherwise zero.	Data comes from the survey that was conducted specifically for this study. Question 19.
Size	The size of an IPA in terms of the number of employees (*full-time equivalent)*	Data comes from the survey that was conducted specifically for this study. Question 18.
Consultancy	Consultancy driven IPA. Is a dummy variable, which is equal to one once the agency became a consultancy-driven service organisation, otherwise zero.	Information comes from the interviews that were conducted for this study.

5.3.5 Results of the analysis

This section will discuss the result that we have obtained from the three-model specifications presented above.

Good practice in investment promotion: Sector targeting

The results presented in Table 5.14 imply that there is a positive correlation between sector targeting in investment promotion and attracting FDI. Since a higher value of a country's ranking on the Inward FDI Potential Index is associated with a less attractive business environment, we expect this variable to be negatively correlated with FDI inflows. Anticipating that the effect of IPAs' targeting activities might take some time to be reflected in statistics, we include three lags for *Targeted Sectors* in our analysis. All three lags also justify that there is a positive linkage between investment promotion and FDI inflows, which is even increasing in its magnitude while time passes.

Table 5.13 Sector targeting (Dependent variable FDI inflow No. of project per sector)

Variable	(1)	(2)	(3)	(4)
Targeted Sector	1.462*** (0.433)			
Potential	-0.020*** (0.006)	-0.028*** (0.007)	-0.036*** (0.008)	-0.040*** (0.009)
Lagged Targeted Sector		1.580*** (0.454)		
Lagged 2 Targeted Sector			1.707*** (0.472)	
Lagged 3 Targeted Sector				2.312*** (0.504)
No. of observations	14244	13000	12100	11200
No. of country-sector groups	950	950	950	950
Within R-squared	0.0428	0.0473	0.0493	0.0518

Note: Standard errors are reported in parentheses. Statistical significance is denoted by *, **, *** at 10%, 5% and 1% respectively. i indicates that this is Between R-squared as it is random-effect GLS regression.

Table 5.14 Descriptive statistics for sector targeted (Dependent variable FDI inflow No. of project per sector)

Variable	No. of obs.	Mean	Std. dev
FDI inflows (in terms of nr. of projects)	14250	1.647	4.921
Targeted Sector	14250	0.065	0.247
Potential	13900	25.413	14.931

Good practice in investment promotion: (Formalised) links with the private sector

Table 5.16 presents the result that we have obtained from our empirical analysis concerning the evaluation of (Formalised) links with the private sector on inflow of FDI. Our results suggest that being a quasi-governmental entity would have a positive effect on FDI inflows. Our results are in line with Wells and Wint (2000) findings that IPAs with quasi-government status are performing better than IPAs that are part of governmental departments.

Furthermore, our results suggest that the following variables have a positive correlation with FDI inflows:

- having private sector representatives in the Board;
- having employees with private sector experience; and
- the size of an IPA.

This is also in line with findings of earlier literature that looked at the importance of links with the private sector for effective investment promotion across the globe.

Having average salaries in the agency higher than average public sector salary levels has a negative correlation with FDI inflows, based on the analysis carried out here.

Table 5.15 (Formalised) links with the private sector (Dependent variable FDI projects per sector)

Variable	(1)
Quasi	20.944 *** (9.150)

Variable	(1)
Board	0.425*** (0.135)
Staff	0.322*** (0.129)
Salary	-36.074*** (11.598)
Size	0.784*** (0.172)
Potential	-0.343*** (0.113)
No. of observations	500
R-squared	0.498

Note: Standard errors are reported in parentheses. Statistical significance is denoted by *, **, *** at 10%, 5% and 1% respectively. i indicates that this is Between R-squared as it is random-effect GLS regression.

Table 5.16 Descriptive statistics of (formalised) links with the private sector (Dependent variable FDI inflow No. of project per sector)

Variable	No. of obs.	Mean	Std. dev
FDI inflows (in terms of nr. of projects)	950	13.691	35.706
Quasi	950	0.737	0.441
Board	700	52.214	31.257
Staff	750	61.333	28.740
Salary	950	0.211	0.4078
Size	800	33.563	33.384
Potential	950	26.845	15.568

Good practice in investment promotion: From general image building and branding activities to becoming a consultancy-driven service organisation

The results presented in Table 5.18 imply that a consultancy-driven IPA is positively correlated with higher inflows of FDI. This result is what one would expect, if the investment promotion agency shifts its mind-set from simply promoting general image and overall investment climate toward becoming a consultancy-driven service organisation that understands the needs of corporate decision makers, it should be attracting more FDI inflows.

$$FDI\ inflow_{ct} = \alpha_0 + \beta_0 Consultancy_{ct} + \beta_1 Potential_{ct} + \varepsilon_{ct}$$

Table 5.17 From general image building and branding activities to becoming a consultancy-driven service organisation

Variable	(1)
Consultancy-driven	41.692* (11.624)
Potential	- 0.778* (0.520)
No. of observations	308
R-squared Adjusted	0.8706

Note: Standard errors are reported in parentheses. Statistical significance is denoted by *, **, *** at 10%, 5% and 1% respectively. i indicates that this is Between R-squared as it is random-effect GLS regression.

Table 5.18 Descriptive statistics for general image building and branding activities to becoming a consultancy-driven service organisation

Variable	No. of obs.	Mean	Std. dev
FDI inflows (total number)	315	79.333	111.426
Consultancy-driven	315	0.085	0.280
Potential	308	24.59	14.44

6 Upcoming issues and trends in FDI

This report has been meant to identify common and good practices, but as a part of the research, a number of upcoming issues and trends appeared. Practices have yet to be developed in these areas, and they remain particular points of interest that should be explored in the future.

6.1 Online communication is more than a website

The term Web 2.0—first discussed at the turn of the century—was created to describe a web that was no longer static. Web 2.0 was about a web that was all about collaboration and interaction. This term was coined long before the popularity of social media took the concept and actualised it for millions of users on the Internet.

Social media has, in fact, markedly changed how the private sector reaches out to its customers and clients, giving companies the opportunity to engage in conversations with their clients in a public forum. Dutch airline KLM, for example, uses social media to answer customer questions and to solicit feedback from individuals in both Dutch and English. Information fed into various social media sites are used to further understand, segment, and target customers.

This makes it all the more surprising the dearth of material on online marketing of a location, as various reports have failed to keep pace with this topic. The World Bank, for example, recently released their best practice manual for investment promotion agencies, dedicating an entire chapter to the subject of online investment promotion. Yet, the focus of this chapter is almost exclusively on promotion via websites. Reading these words would leave one with the impression that online investment promotion requires nothing more than a good set of programmers and Google optimisation policies.

Yet, online practice has moved far beyond the controlled environment of a passive and static website, but has moved to a stage that requires a more proactive and targeted management of one's online presence. In a world where Facebook, Twitter, and other social media giants have liberalised content creation and dissemination, agencies have only begun to grapple with how to manage their image and information about their region.

While the use of social networking can be tied partly to a desire to cut travel expenses, there's no escaping that social media would have still become an important new avenue to reach out and target new investors. While some may focus on the ubiquity of social media as one of the justifications for using this media, more important for those looking to market products (which includes locations) is the ability to find and target very specific groups of individuals. Social media offers a wealth of knowledge about communities of individuals and their interests, and provides a vehicle to reach them.

The use of social media by IPAs was topic of debate at the Expert Meeting of 15 May. A generally shared opinion among the IPAs attending was that social media are not the road to salvation, but that they are an instrument that continues to gain in importance to build up the region's identity. The IPA of Nantes has four staff members, one of which is full-time active on social media. The reasoning here has been that being such a small agency, they feel they can only be efficient when they work on reputation.

The CEO from FrankfurtRheinMain stressed the importance of several innovative marketing activities used by the agency – particularly online - that has contributed to its success. As regards social media, his perception is that social media do not directly bring in new leads, but that IPAs do not have a choice to be using social media as it is important to build and maintain an online image. This conclusion was shared by another IPA, reporting that exactly none out of 200 projects completed per year came from their interactions with investors via social media.

Social media means active network management

Many agencies that are using social media today produce marketing messages that declare the many advantages to working within a particular location. While some benefit may accrue from this, it still ends up being relatively reactive, attracting generally consultancy firms, competing investment promotion agencies, and connected stakeholders. One might even reach investors who have put a location on a long list.

But reaching those investors before they have created one of their long lists is the ideal, and in this case, the agency itself might not be the best spokesman. One way that agencies can reach more directly to investors in a specific subsector is to find an ambassador or spokesman who already has a large following and has a connection with the location. Letting them guest post about activities that are going on in a location can provide avenue to new audiences and can be a more targeted way of using social media.

6.2 China: opportunity or “threat”?

Many academic articles and more operational discussion of foreign direct investment have addressed the rising importance of the BRICs (Brazil, Russia, India, and China) on FDI stock. The survey conducted for this project only serves to confirm that agencies have recognised that Multi-national Companies from these developing countries have begun to become important investors in their own right.

To understand how investment from places like China has been changing, one needs to understand that companies have traditionally had three routes to internationalisation (Child and Rodrigues 2005):

Contract Manufacturer/JVs. Eventually acquire the technologies or capabilities required to move up the value chain.
Mergers and acquisitions (M&A). Secure resources, brands, or intellectual property directly.
Greenfield investment. Expanding into new markets through existing brand and IP.

Contract manufacturing and joint ventures have been the traditional model for Chinese companies to become more international in their focus. But investments and technological innovations from companies such as Huawei and ZTE have shown that Chinese companies are no longer junior partners looking to learn from Western companies, but are companies looking to make their own investments.

But, while some agents view investment from China as an opportunity, the fact that Chinese companies are so firmly tied with the government has made national governments suspicious and there has been the start of a political backlash. Huawei and ZTE, for example, have found themselves under intense scrutiny from the American government over the theorised “back doors” that they could be building into their equipment. The late 2012 report from the U.S.-China Economic and Security Review Commission illustrated a number of concerns that the American government should have with attracting state-owned enterprises:

> Chinese investments will create tensions related to economic security and national security if they behave in accordance with China's industrial policy as articulated in the 12th Five Year Plan, government pronouncements, and official investment guidance. China's current policy guidance directs firms to obtain leapfrog technologies to create national champions in key emerging industries, while investment guidance encourages technology acquisition, energy security, and export facilitation. Based on this juxtaposition, some will conclude that Chinese FDI in the United States is a potential Trojan horse. Indeed, this study describes three investments in new energy products after which production utilizing the desired technology was shifted to China.

Beyond the obvious political questions that arise from state-owned enterprises and their role in Western economies, the corollary question for investment promotion from places dominated by state-owned enterprises is whether promotion techniques change in this situation. Given that enterprises will follow the lead of governments, the question also rises about whether investment promotion agencies operating in these regions need to tie themselves more closely with Western political actors to achieve more success.

6.3 Soft-asset seeking

Much of the focus on investment promotion looks at research and development from a hard science perspective. Indeed, much of investment policy within countries also focusses on high technology and other areas of innovation that produce new goods for sale on the market.

Yet, while research & development remains a key aspect of an innovative and vibrant economy, some policy-makers have forgotten about the softer skills in the Western world that companies from the developing world consider to be attractive—namely, marketing and branding.

For the moment, with the odd exception, internationally recognised and coveted brands are born in the Western world. Of the top 10 brands as ranked by Interbrand,[42] only two are not American, and only one is from outside the traditional Western world—South Korea's Samsung is ranked number 9 while Japan's Toyota is ranked number 10. Four European firms hit the top 20, with Mercedes [11], BMW [12], Louis Vuitton [17], and Nokia [19].

Firms from the developing world in general still look for the marketing and branding experience from Western companies. Investments in a local firm can either allow companies to leverage the existing brand or gain access to knowledge on how best to build those brands globally.

6.4 Localised promotion, regional cooperation, and the role of Europe

Some investment promotion agencies in larger countries have traditionally relied on the regions and cities in their constituency as second-tier support organisations. But as companies move their decision-making for a location down to the city level, regions and cities have been developing their own capacity for investment attraction.

[42] http://www.interbrand.com/en/best-global-brands/2012/Best-Global-Brands-2012.aspx

Competition between agencies, before the rise of the regions, was limited to between Member States. Currently, however, one sees regions—even within the same country—competing against each other for investor favour.

In some case, such as the United Kingdom and the Netherlands, Memorandums of Understanding are signed between the various agencies to determine how leads are shared and who has what responsibility. However, as one would expect in a competitive environment, not all leads are shared between the various regions. In some cases, national agencies selectively share with the regions, not necessarily informing all of an incoming lead. At the same time, cities and regions can be possessive of their own leads in fear that other regions may undercut their attraction activities (with more attractive incentives, for example).

But while regional agencies are becoming more important, it also raises the fact that more and more agencies are competing against each other, both within a particular Member State, but also within the European Union as a whole. If a large component of FDI coming into the EU is largely market seeking, a lot of the work being done by investment promotion agencies is bringing investment into Europe in competition with outside forces, but is rather about shifting investment within Europe. Agencies, in this case, are competing across the Union for FDI which is going to land in Europe anyway. From a national perspective, this would make sense, but from a European one, is arguably more damaging than beneficial.

6.4.1 Coordinated measures to take at EU level – suggested by individual IPAs

During the interviews some of the IPAs provided suggestions from their own professional background on possible FDI promotion and policy measures that could be taken at European level to tackle current and future challenges. These suggestions are not based on empirical or academic research, nor do they necessarily represent the opinion of Ecorys. As IPA senior managers are a group of professionals that deal with competitiveness issues on a daily basis, we do view these suggestions as valuable topics to be picked up in later debate.

- The IPAs participating in this study represent regions that house many of the largest companies operating in Europe. Practical and real-life lessons on EU competitiveness can be learnt from the CEOs of these companies. The IPAs are willing to facilitate a meeting to discuss EU competitiveness with these European captains of industry;
- Opt to incentivise greening of the economy on EU level;
- There is a call from some IPAs for a major overhaul of the existing EU-financed incentive schemes and to improve pan-European coordination. It is the opinion of some IPA representatives that ERDF money should not redistribute FDI already captured for Europe but allow EU to be a global player;
- It would be interesting to explore whether there is room for a European IPA that unites European efforts to win FDI projects that would otherwise have chosen USA, BRICs or other parts of the world;
- A European IPA is probably unlikely, yet there might be a rationale to set up a lobby organisation representing the interests of European IPAs in Brussels. This organisation could feed to all IPAs upcoming legislatory and regulatory changes impacting on the quality of the overall investment climate in the EU and thus influencing their performance;
- One representative suggested to dedicate a specific chapter on promoting of FDI in the Horizon 2020programme on research & innovation for those sectors identified as priorities;
- A few IPAs point to the wide variety in Member States' endowments and warn against high ambitions on EU level to coordinate investment promotion.

6.5 Sustainable FDI: the disconnect between theory and practice

To return to the Vale report on investment promotion trends, they have identified a “fourth generation” of sustainable FDI. In their report, they claim that investment promotion agencies, following closely from policy discussions, have been pushing for “sustainable FDI”, based on the three pillars of sustainable development.

The interviews conducted for this report, however, failed to show a single interviewee identifying sustainability as a key issue.

This is not to say that sustainability does not factor in as a part of value proposition for some locations. Copenhagen has clearly branded itself as a green city interested in attracting clean tech companies with a track record in sustainability. For the city of Copenhagen, being green is more than just a marketing campaign, but part of a joined-up, strategic campaign by the government to make the city green. Currently, the Copenhagen Climate Plan states that the city would like to become the first carbon neutral capital in the world by 2025. Copenhagen has been very visible associating itself with green events as well, hosting the 2009 UN Climate Change Conference and being named the European Green Capital of 2014.

Copenhagen’s green ambitions is a good example of joining strategic, tactical, and operational considerations of foreign direct investment attraction, and represents a mix of initiatives that work in this particular context.

Annex A A summary of the agencies analysed

This annex provides a brief summary of the agencies studies for this report examined along four lines: the agency's relationship with the regions, their level of autonomy, the maturity of the market in which they work, and their sectoral focus. The descriptions below are based strictly on publicly available data and are left blank in case information was not publicly available.

Aderly

Aderly, Lyon's economic development agency, was founded in 1974 making it one of the first economic development agencies in France. Aderly guides investors through setting up or expanding business in Lyon or the surrounding area. The agency assists with conducting feasibility studies; finding a location and facilities; advising on regulatory, fiscal and administrative issues; fundraising; and introducing relevant partners and local authorities. The agency also offers services to welcome the employees of foreign multinationals and follow-up services after the business is established.

Aderly is one of the founding members of the ONLYLYON programme and implement its strategy of making Lyon a top business location by exploiting the city's comparative advantages. The programme aims at promoting Lyon as a biotech capital with world-class clusters, boosting university standards to join the top 30 in Europe, developing infrastructure, strengthening financial and service systems and developing the tourist industry. This programme targets decision makers in major European capitals.

During 2011, 340 investment projects were successfully created, which represents a total of 4,221 jobs, adding on to Aderly's current portfolio of 400 projects. The 2012-2014 strategy identifies performance indicators, target sectors and a plan to monitor international investors in the region in order to adapt to the new economic challenges affecting the business environment.

1. Relationship with regions

The agency provides an interactive map with 14 sites for businesses to set up shop including business districts, research centres for life sciences, technological and industrial business parks, logistical sites and enterprise zones. Aderly collaborates with regional government agencies and private organisations, particularly with the implementation of the ONLYLYON program. Cooperation with local authorities (greater Lyon) and government departments is an essential part of its mission, especially during hard economic times.

2. Level of autonomy

Aderly has four principals: Greater Lyon, Lyon Chamber of Commerce and Industry, Rhône County Council, Medef Lyon-Rhône. The level of autonomy is not clear based on information available.

3. Maturity of market

Lyon is the best place to set up a business after Paris in the Ernst & Young Attractiveness Survey of France. Lyon is a city of innovation ranked as the ninth most innovative city in the world and a top favourite city among entrepreneurs. The amount invested in R&D per year in Rhône-Alpes region is EUR 4 billion, which is comparable to that of Denmark and Finland. Lyon is home to competitive clusters, namely Lyonbiopôle, Axelera, Lyon Urban Truck & Bus, Imaginove, Techtera, among others.

In 2011, Lyon's attractive investment climate has led to the establishment of 15 new companies in the energy, automotive, design/technical services and environmental sectors. Lyon is the second most popular location in France for decision centres offering 4.9 million square meters of office space and is ranked sixth in terms of value-for-money for real estate. Choosing Lyon over Paris leads to a savings of EUR 1.3 million per year and an additional salary cost savings of 5-15 percent.

4. Level of sectoral focus

Clean technologies and life sciences are Lyon's two key sectors of excellence, which will continue to be priority areas in 2012-2014. The tertiary sector is a new area of strategic importance, targeting new national and international clients in the areas of IT, financial, HR and shared services.

As part of the ONLYLYON program, Aderly promotes Lyon's advantages in healthcare, environment/chemicals, urban transportation, digital entertainment sectors, technical textiles, along with the services industry and traditional industries including tourism, history, gourmet dining, etc. Detailed information is provided on the following sectors:

- Cleantech
- Automotive
- Biotech
- Business services
- Life sciences
- ICT
- Logistics
- Industrial product distribution
- Buildings/Home/Decoration
- Agri-food

5. Resource allocation to investment promotion

The total amount of resources spent on investment promotion in 2011 was EUR 402,000.

BUDGET

INCOME IN €K	2011
LYON CCI	1 822
GREATER LYON	1 518
RHÔNE COUNTY COUNCIL	1 170
MEDEF LYON-RHÔNE	28
ZONES OUTSIDE RHÔNE COUNTY	109
COMPANIES AND PARTNERS	33
TOTAL	**4 680**

EXPENDITURE IN €K	2011
PROSPECTING	2 735
REGIONAL DEVELOPMENT	250
PROMOTION	402
PROJECT SUPPORT	251
JOINT SERVICES	1 042
TOTAL	**4 680**

Austria Business Agency

Austria Business Agency/Invest in Austria (ABA-Invest in Austria) is the national investment promotion agency delivering assistance to foreign companies interested in setting up or expanding operations in Austria. The agency proactively approaches potential investors and offers advice on tax and labour regulations, real estate prices and incentives. Promotional materials such as specialised brochures and tailored information packets on Austria as the ideal business location are developed by the agency. ABA-Invest in Austria also supports investors with applications for public funding or operating licenses.

In 2010, ABA-Invest in Austria assisted 198 companies and facilitated investments totalling EUR 221.1 million which created 1,383 new jobs. The Global Investment Promotion Benchmarking 2012 report ranked ABA-Invest in Austria's website as number one out of 189 IPAs and inquiry handling as number seven.

1. Relationship with regions

Austria has nine federal provinces of which Carinthia, Lower Austria, Styria, Tyrol and Upper Austria provide opportunities in R&D and innovation for a range of high-tech industries. Though many IPAs claim to be the best location for innovation, Austria has the facilities and workforce to prove it, as Upper Austria is host to seven single-sector clusters and five multi-sector clusters and Tyrol has 37,000 companies, five universities of applied sciences and more than 20 university clinics. Vorarlberg is known for its textile industry and has high potential due to possible productivity spill overs from Germany. Burgenland is the only region that is not promoted as an investment region.

The agency collaborates with regional development agencies in the provinces on federal matters related to public funding and operating licenses.

2. Level of autonomy

ABA-Invest in Austria is owned and operated by the Austrian Government and reports directly to the Ministry of Economy, Family and Youth.

3. Maturity of market

Austria is ranked as one of the most prosperous countries in the world and third in the EU in terms of purchasing power. Austria's research incentives, efficient public services conducive to economic growth and moderate corporate taxation cap of 25 percent make it an attractive business location. Austria has one of the lowest unemployment rates in the world (4.2 percent) and a large number of highly skilled workers, particularly senior managers.

Innovative SMEs are the main driving force of Austria's economy. Contrary to its reputation with arts and culture, Austria is traditionally an industrialised country. Industrial sectors account for 31 percent of Austria's GVA. Foreign direct investments flowing into Austria were particularly high in 2011, reaching EUR 11 billion.

4. Level of sectoral focus

ABA-Invest in Austria provides a comprehensive brochure on each of the industries listed below:

- Automotive Industry
- Environmental Technologies & Renewable Energies
- Information Technology
- Life Sciences
- Tourism
- Private Equity & Real Estate
- Chemicals
- Plastics Machine Construction
- Mechatronics

- Electronics Logistics
- Wellness/tourism

The most important industrial sectors are chemical and automotive industries, mechanical engineering, electronics, life sciences and environmental technology. The quantitative data and detailed information per sector on ABA-Invest in Austria's website gives investors a high level of confidence that Austria is performing well in these sectors. It is clear that ABA-Invest in Austria's main focus is on investment promotion.

5. Resource allocation to investment promotion

Information not available.

Cyprus Investment Promotion Agency

The Cyprus Investment Promotion Agency (CIPA)'s mandate is to (i) promote foreign investment in key sectors; (ii) advocate reform to strengthen the business and regulatory environment and infrastructure; (iii) provide aftercare and development services for investors. In 2011, CIPA focused on image building through engaging in meetings with the media and the dissemination of more than 40 ads; investment facilitation in sectors, particularly finance and shipping sectors; and the development and distribution of investment promotion materials including publications and films.

CIPA placed fifth in the World Bank's "Global Investment Promotion Benchmarking 2012" report for best practices in collecting, analysing and providing information to attract investment.

1. Relationship with regions

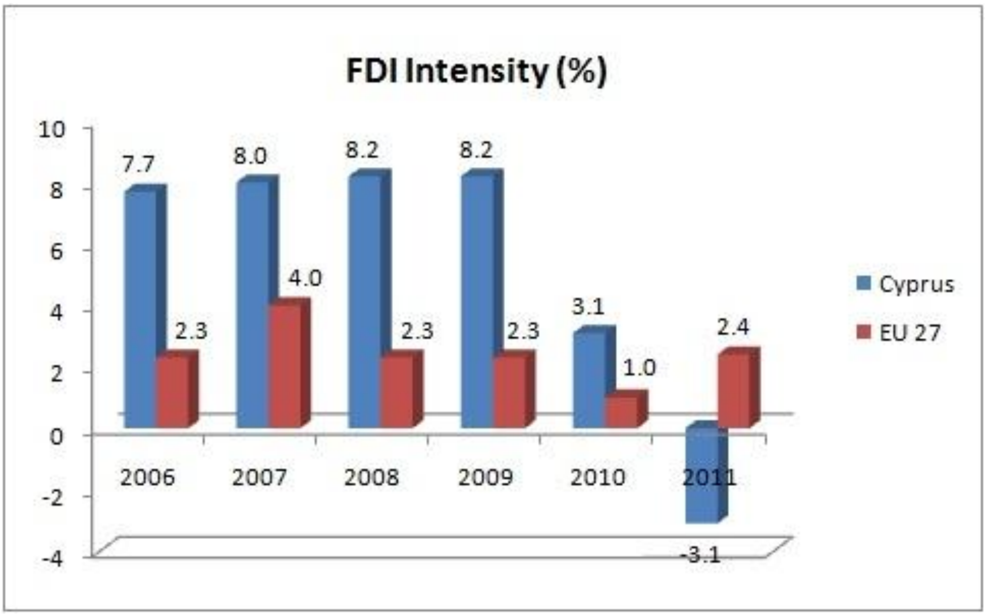
No mention of regions on the CIPA website.

2. Level of autonomy

The CIPA, established in 2007 by the Council of Ministers, is designated to attract FDI in coordination with the private sector and government organisations. CIPA's mandate is intertwined with national policy, as attracting FDI is a top priority for the Government. In fact the CIPA receives all its funding from the Government. CIPA communicates with the Government and relevant authorities on legal and fiscal matters effecting business or the investment funds' industry via the CIPA's Expert Fund Industry Committee.

3. Maturity of market

Cyprus is a market-driven, service-based economy with a highly effective legal and regulatory framework. Cyprus' complete liberalisation of the capital market and harmonisation with EU laws and regulations, as well as the elimination of tariffs and quantitative restrictions, are appealing market conditions for foreign investors. Relative to its size, Cyprus has attracted a significant amount of FDI in the past few years. However, Cyprus experienced a major decline in FDI compared to the EU from 2009 to 2011, as shown in the figure below:



Source: Eurostat

According to the World Bank's "Doing Business" report in 2011, Cyprus' business climate is ranked in the 20th percentile of 183 countries worldwide. Cyprus's tax system is compliant with EU, OECD, FATF and FSF regulations and is one of the EU's lowest corporate tax rates at 10 percent. Cyprus also holds double taxation treaties with over 45 countries.

4. Level of sectoral focus

CIPA promotes investment in Cyprus' key economic growth sectors identified in the Government's Strategic Development Plan 2007-2013:

Sectors	Cyprus' Sector Highlights
Banking and financial services	• Investment funds center of the region – public and private • Services cover asset management, private banking, international corporate and investment banking, retail banking, syndicated loans, etc.
ICT	• Regional headquarters for major ICT multinational firms • Opportunities for university-industry partnerships to boost R&D
Shipping	• 3rd largest merchant fleet in the EU and 10th largest in the world • Competitive tonnage tax system removing taxes on profits from shipping operations, sales and dividends of ships, and wages
Energy	• Fully harmonised with EU energy policies • Cypriot Exclusive Economic Zone brings new opportunities in natural gas • Incentive programs for renewable energy
Professional services	• Accounting services – Auditing, management consultancy, taxation, financial advisory and other administrative services • Legal services – International law, corporate administration and management services
Education	• Popular study abroad programs for UK and US students studying business, accounting, law and science • Opportunities for investment in universities, colleges, and research institutes
Medical services	• Health tourism attracted an estimated 60,000 health travelers came to Cyprus in 2012 to combine treatment with recovery and vacation. • University of Cyrus will open a Medical School in 2013

Financial services account for a large percentage of the GDP. Services in finance, insurance and real estate, along with professional, scientific and technical services attracted the most FDI in 2011.

5. Resource allocation to investment promotion

Information not available.

Czech Invest

CzechInvest, a subordinate of the Ministry of Industry and Trade, offers a wide array of services to attract foreign investments and increase the competitiveness of the Czech economy. CzechInvest provides assistance to SMEs interested in joining the supply chains of multinational enterprises and supports investors' needs by offering tailored information, investment incentives and aftercare services. CzechInvest is also responsible for the preparation and implementation of investment facilitation projects funded by the EU and state budget.

The Czech economy experienced a strong flow of investments in 2007, during which time CzechInvest mediated 182 investments amounting to $3.5 billion, which created an estimated 30,600 new jobs. Despite the expected decline in investments between 2008 and 2010, CzechInvest mediated a record high of 233 investment projects in 2011 totalling $1.9 billion. CzechInvest's investment facilitation strategy has shifted from a primary focus on aftercare services and business expansion assistance in 2007 to support for Czech SMEs, investments in innovation and human resource development in 2011. As part of CzechInvest's 2011 strategy to adapt to the new investment conditions, foreign investment stimulated through establishing Special Economic Zones (SEZs), increasing the ease at which to transfer research and development results to commercial sectors, participating in cluster initiatives and boosting support for regional development and administering new business support programmes.

1. Relationship with regions

CzechInvest collaborates closely with a network of regional offices that provide investment support, including the identification of investment opportunities and local business partners and suppliers, as well as aftercare services and the facilitation of workshops and seminars on business environment support. Regional offices provided vital information to map out brownfield investments resulting in a detailed study covering 2,355 locations; providing a basis for the national Brownfield Regeneration Strategy.

In 2007, CzechInvest prioritised investments to depressed regions by implementing the "Programme to Support new-Job Creation in Regions Worst Affected by Unemployment". The aim of the Programme was to draw investments to regions with an unemployment rate that is 50 percent higher than the national average. This resulted in the creation of more than 10,000 new jobs and investments worth $237 million – the town of Hodonín was the most successful followed by Chomutov, Jesenik and Louny. In contrast to 2007, CzechInvest in 2011 promoted each region's competitive advantages and investment potential. For example, the Olomouc region is home to several clusters (Innovation Cluster, Czech Nanotechnology Cluster, Moravia–Silesia Wood Industry Cluster and Med- ChemBio); the Moravia–Silesia region boasts high–quality facilities for establishing and developing in high-tech sectors (eco-energy and ICT); and Prague and Central Bohemia has a high concentration of mechanical engineering and is the location for the EC-funded Extreme Light Infrastructure Project. CzechInvest offers incentive programmes for the less developed regions, such as Ústí, to stimulate investments. Nearly all regions are participating in an innovation and business support services programme, and

The national Programme to Support Business Properties and Infrastructure in 2007 identified strategic industrial zones projects in Solnice-Kvasiny, Most-Havraň, Nošovice, which are now ready for investors or are in the final stages of realisation.

2. Level of autonomy

CzechInvest closely collaborates with the Ministry of Industry and Trade on attracting foreign investments and developing the local business environment. CzechInvest's autonomy from the Ministry has increased since its inception in 1992 with the authority to submit applications for investment incentives to other government agencies and prepare draft offers to grant them. The agency also facilitates and coordinates with other ministries on investment related projects.

3. Maturity of market

The Czech Republic, one of the most advanced economies of the new EU Member States, is a mature host country for FDI due to low inflation, reasonable interest rates and a solid economic growth rate. Czech's open investment climate has stimulated large inflows of FDI since 1990. According to the World Economic Forum's 2011-2012 Global Competitiveness Report, Czech Republic is the top performer in terms of competitiveness out of the Central and Eastern European countries. The Czech National Bank reports a total of EUR 77.1 billion of FDI to the Czech economy since 1993.

4. Level of sectoral focus

CzechInvest's new strategy on transitioning the Czech Republic into a "knowledge economy" involves the promotion of IT and software development, business support services, life sciences, clean technologies, electrical engineering and electronics, precision engineering, nanotechnology, aviation, aerospace and the automotive industry. Investments have transitioned from mainly manufacturing in 2007 to technologically advanced projects with high value added in 2011. Expansions accounted for the majority of investments in 2007, in terms of projects and financial volume, specifically in the automotive, mechanical engineering and plastics sectors. Automotive manufacturing and mechanical engineering are still important sectors, however, the chemical and pharmaceutical, and IT and software sectors now account for a significant percentage of investment flows.

5. Resource allocation to investment promotion

Costs and revenues are listed on page 49 of the 2011 Annual Report but it is not clear how much of the costs are associated with investment promotion activities.

Total costs:

2007	13.5 million euros
2011	14.9 million euros

More than 2,000 national and region reports in journals, television and radio were disseminated regarding CzechInvest in 2011. These publications and newscasts, together with the thoroughness of the CzechInvest website and detailed accounts of enquiries, indicate a significant amount of resources allocated to communications and marketing.

Estonia Investment and Trade

The Estonian Investment and Trade Agency (EITA) is a governmental agency within Enterprise Estonia focused on enhancing the competitiveness of Estonia's business environment, building Estonia's image for foreign investments and trade, and developing relationships with foreign companies. Services provided to potential investors and trading partners include the provision of information services and investment preparation, consulting and project management services, as well as post-investment services. This covers a wide range of activities from organizing site visits and identifying partners to advice on project financing and site selection.

Enterprise Estonia promotes business and regional policy in Estonia under the national support system for entrepreneurship. EITA's investment promotion activities are aimed at the target markets where Enterprise Estonia's foreign representation offices are. These offices are located in 13 cities worldwide including Helsinki, Stockholm, Hamburg, London, Paris, St. Petersburg, Moscow, Kyiv, Amman, Shanghai, Seoul, Tokyo and Silicon Valley.

1. Relationship with regions

Enterprise Estonia coordinates with the network of County Development Centres to provide investors with regional information related to Enterprise Estonia's mandate, structural funds, government-financed projects, and the recruitment of private sector consultants. The EITA website does not mention the Development Centres or its relationship with the regions.

The agency does, however, promote Estonia's regional features through the use Oxford Intelligence's Talent Map tool. The Talent Map shows not only the national and regional talent pools in key sectors, but also the location of Estonia's top companies, research centres, universities, business schools and business parks.

2. Level of autonomy

EITA's operations are fully funded by the Estonian Government. The head office in Tallinn regularly reports to the Ministry of Economic Affairs and Communications. EITA/Enterprise Estonia cooperates with other development agencies such as the Estonian Development Fund (Arengufond) and Estonian Credit and the Export Guarantee Fund (KredEx).

3. Maturity of market

Estonia is a market-based economy and is ranked among the top 25 countries in the World Bank Ease of Doing Business Index. As a member of the EU and the Euro Zone, Estonia's laws are harmonised with those of the EU offering a stable business environment for investors. According to Transparency International Corruption Perception Index 2011, Estonia is the most transparent and least corrupt country in Central and Eastern Europe (CEE). Estonia also has the highest income per capita in the CEE region and one of the lowest national debts in Europe. FDI stock inflows to Estonia reached EUR 12.3 billion as of 31 December 2010.

Foreign-owned companies control over 95 percent of both the banking and communication & media sectors. Although Estonia attracts the largest amount of FDI per capita in the CEE region, key challenges related to the shortage of quality labour may influence future FDI flows.

4. Level of sectoral focus

EITA promotes a few sectors as target sectors for investment:

- ICT
- Electronics
- Machinery and metalworking
- Wood processing
- Logistics/transport
- Food

R&D activities within these sectors take place in Estonia's nine universities and 24 higher education colleges. ICT is an important sector in Estonia with specialised markets such as office machinery assembly services and electronic equipment manufacture. Estonia's biotechnology sector is also developing at the country's key universities with more than 300 biotech researchers.

5. Resource allocation to investment promotion

Information not available.

Flanders Invest

Flanders Investment and Trade (FIT) assists local and foreign enterprises in developing business in Flanders through trade and investment. FIT was created in 2005 through the merger of Flanders Foreign Investment Office and Export Vlaanderen. FIT offers information on sectors, trade customs and regulations, as well as advice on how foreign businesses can set up or expand in Flanders. The agency also helps to form partnerships to facilitate business and provides SMEs with financial support for trade fairs, prospective investment trips, capital goods or feasibility studies.

In 2011, FIT facilitated 174 projects valued at EUR 1.72 billion, which created 3,720 jobs. Nearly half of the investment projects were in greenfield investments, followed by 32 percent in mergers & acquisitions and 18 percent in expansions. FIT was awarded first for the ‘Best Foreign Direct Investment Strategy’ and ranked in the top ten on overall attractiveness for FDI in the Financial Times fDi magazine.

1. Relationship with regions

FIT has offices in each of the five provinces in Flanders that provide assistance and incentives to Flanders-based companies involved in international activities. The website does not promote the attributes of the individual provinces and it appears as though the offices are not involved in investment promotion activities.

2. Level of autonomy

FIT is the main agency within the Flemish authorities for Flanders companies and investors seeking to expand in Flanders. Although FIT operates under the Flemish Government, it is an externally autonomous agency with its own Board of Directors. FIT and the Government of Flanders have a management agreement that stipulates FIT’s activities. The agency carries out its objectives in cooperation with other governmental agencies, such as Enterprise Flanders Agency (AO) and the Participation Company Flanders (PMV).

3. Maturity of market

Flanders’ open economy, central location and tax advantages make for an attractive business environment. Flanders has maintained its historical reputation of being a major trade centre serving as a gateway to all of Europe. Flemish exports comprise 80 percent of the Belgian GDP demonstrating the region’s economic importance to the national economy.

Brussels ranked eighth as one of the most attractive business cities in Europe due to market and customer accessibility, high quality infrastructure, skilled workforce and excellent living standards for expats.

4. Level of sectoral focus

Flanders is home to nine knowledge clusters and R&D centre in the field of automotive, mechatronics, transport, food, logistics and IT. FIT focuses on attracting both multinationals and SMEs in the following sectors:

- Automotive
- Chemicals
- Life sciences
- Renewable energy
- Logistics

- ICT
- Food
- Textile

FIT promotes the region's activities in high quality and value added products and services including pharmaceuticals, medical imaging, microelectronics, chemical processing, biotech, environmental technologies and luxury products such as diamonds and fashion.

In 2011, the manufacturing sector has attracted the highest amount of FDI at 34 percent, followed by sales and marketing at 32 percent and logistics at 13 percent.

5. Resource allocation to investment promotion

The total FIT budget for 2011 was EUR 51.3 million, which includes all activities related to trade and investment. The exact amount dedicated to investment promotion is not specified.

Frankfurt

FrankfurtRheinMain GmbH – International Marketing of the Region – is the region's inward investment promotion agency that advises and supports foreign investors. The agency proactively markets the regions' strengths and implements targeted measures to improve the Frankfurt am Main's competitiveness. FrankfurtRheinMain connects investors with potential partners, identifies optimal business location, assists with the establishment of businesses, and provides information on taxes and legal regulations.

FrankfurtRheinMain's main strategy for attracting foreign investments is focused on promotion activities abroad with offices in Asia, America or Europe. Having presence in several countries enables the agency to easily reach out to potential investors with market and site information. The agency also has a number of industry experts at hand to provide advice on variety of sectors.

The agency's website also promotes Germany's competitive advantages and general economic, geographic and political information.

1. Relationship with regions

FrankfurtRhineMain is one entity comprised of 15 towns and districts, the state of Hesse, the chambers of industry and commerce and various other affiliated organisations. Together they are responsible for promoting the regions' strengths as a whole.

2. Level of autonomy

Information is not easily accessible.

3. Maturity of market

FrankfurtRheinMain is an attractive business region due to its infrastructure, high-speed data networks, innovative industry and R&D facilities. Frankfurt am Main has a reputation for being one of the world's leading financial centres. The region is a top location for trade fairs with more than 30 trade fairs and exhibitions each year including 15 of the world's largest. The region has a population of 5.5 million people, 2.8 million of which are gainfully employed. The region's GDP in 2009 (the latest statistics presented on the website) is EUR 179 billion and the total number of companies in 2011 reached nearly 400,000.

4. Level of sectoral focus

The region is one of Europe's leading industrial locations specialising in the fields of biotechnology and pharmaceuticals, automation and materials technology, and chemicals. It also has a diverse services sector, particularly in media, advertising and logistics services. Detailed information is provided on the following sectors on the agency's website:

- Financial sector
- Automotive industry
- Biotech & Pharmaceuticals
- Logistics / Distribution
- IT/ Telecommunications
- Greentech
- Materials technology
- Automation
- Chemicals
- Management consultancy
- Medical technology
- Creative Industries

5. Resource allocation to investment promotion

Information is not easily accessible.

Germany Trade and Invest

Germany Trade and Invest (GTAI) is the national foreign trade and inward investment agency of Germany. GTAI promotes Germany as a business, investment and technology location and supports investors seeking to expand in Germany as well as German companies looking to expand abroad. Services provided by GTAI include the provision of economic and industry data, along with information about investment and development projects, requests for proposals in foreign countries, legal and customs authorities.

A network of 60 experts worldwide, in collaboration with German Chamber Network, enables GTAI to conduct on-site research in foreign markets and leverage investment promotion activities abroad. GTAI's engagement with foreign investors has resulted in a record high of 828 investment projects in 2011 in Germany, as recorded in the FDI database of the Financial Time's fDi Markets.

GTAI has launched two investment and trade promotion campaigns during 2010-2011. The location promotion campaign called "Germany. Smart Solutions. Smarter Business." markets Germany's strengths in innovation, efficiency and systematic approach to solving issues such as climate change, energy efficiency and sustainable mobility. The other campaign, "Health – Made in Germany", is an export initiative implemented on behalf of the Federal Ministry of Economics and Technology (BMWi) with the goal of improving Germany's position as a leading exporter in the health care sector.

GTAI held or participated in 60 location marketing and investor recruitment events and 114 export promotion events worldwide in 2011. Additionally, informational materials on Germany were available for 296 foreign trade events.

1. Relationship with regions

The agency is particularly focused on supporting the economic development of the Eastern German States, including Berlin. Each region is promoted equally with strengths in various sectors:

- Baden-Württemberg – High number of logistics investments
- Bavaria – Driving Force for Business and Research
- Berlin – Excellent Growth Potential in the Capital
- Brandenburg – Rolls-Royce Expands in Brandenburg
- Bremen – Economically Strong in the Centre of Europe
- Hamburg – Russia's Gateway to the European Union
- Hessen – The Location for Success
- Mecklenburg-Vorpommern – Top Investments of the Year
- Niedersachsen – Mobility in Focus
- North Rhine-Westphalia – Europe's Transportation Hub
- Rheinland-Pfalz – Amazon's New Office Location
- Saarland – Coming Soon to Germany: Italian Roofing
- Saxony – Impressive Growth in "Autoland Saxony"
- Saxony-Anhalt – Powerhouse Region and Place for Global Players
- Schleswig-Holstein – Chinese Photovoltaic Company Opens Branch Office
- Thuringia – Growing Popularity of Thuringia as an Investment Location

2. Level of autonomy

GTAI was established in 2009 as the Federal Republic of Germany's foreign trade and investment agency through the merger of Invest in Germany, the Federal Office of Foreign Trade Information (BfAI) and the Corporation of the Company for Foreign Trade Ltd. (GfAI). A new framework agreement was signed in 2011 to further integrate the activities of GTAI with the Association of German Chambers of Industry and Commerce (DIHK), and the German Chamber Network (AHK network). Collaboration among all German government agencies is a key focal point in GTAI's 2011 Annual Report signifying the agency's integration in national policy. The agency's advisory board is an equal mix of public and private sector actors.

3. Maturity of market

Germany has the largest market in Europe accounting for 20 percent of the EU GDP and 16 percent of the EU population. Germany experienced an economic growth of three percent and a decline in unemployment. Strong legal systems protecting property and individual rights, competitive tax regulations and a variety of financial incentives provide a strong framework for investments. Germany has a wide range of financial incentives to attract investments including credit programs, public guarantees, investment grants, labour-related incentives and R&D incentives. Germany was the sixth largest recipient of FDI with over 55,000 foreign companies and EUR 476 billion of inward investments in 2011 (UNCTAD, World Investment Report 2012).

Germany has a grand total of 130 investment treaties with countries around the world. The 2011-2012 Global Competitiveness Report finds Germany's infrastructure to be the best in the world with top-notch transportation, telecommunications and energy infrastructure. Germany is also one of the world's technology and innovation leaders and, according to Ernst & Young, a fourth of the surveyed investors find Germany to be the most attractive location for R&D. Germany's traditional strengths in engineering, education, technological research and stability will continue to be attractive assets for investment in the coming years.

4. Level of sectoral focus

Investments projects in 2011 were distributed across 39 sectors. ICT & software had the majority share of investments at 19 percent, followed by finance & business services, and vehicles manufacturing and mechanical engineering. Environmental technology is growing rapidly as

Germany's 15 percent share of the global market is expected to double in the next 12 years. Investments in renewable energy is a continuing trend. One out of every four projects in Germany was in the photovoltaics and wind energy sectors. Solar energy projects have closed in the past year, but the Government's large Policy on New Energy has increased the demand for new innovative energy solutions.

GTAI promotes many sectors for investment, including:

- **Business services and ICT** – BPO/shared services, gaming, safety & security, ICT
- **Chemicals and materials** – industrial biotechnology, nanotechnology, plastics
- **Consumer industries** – goods & retail, tourism & leisure, food & beverage, franchising
- **Energy and environmental technologies** – bio-energy, energy efficiency, solar & wind energy, energy storage & fuel cell industry
- **Electronics and micro-technology**
- **Life sciences** – medical biotechnology, medical technology, pharmaceuticals
- **Logistics and mobility** – aerospace, automotive, logistics
- **Machinery and equipment**

5. Resource allocation to investment promotion

The expenses for investment promotion are not included as a separate line item in the 2011 Annual Report budget. However, the revenue generated from project promotion and location in 2011 equalled EUR 1,151,759 – a dramatic increase from the previous year's revenue of EUR 312,000.

Hungarian Investment and Trade Agency

Recently established on 1 January 2011, the Hungarian Investment and Trade Agency (HITA) supports Hungarian SMEs in international trade activities and promotes foreign investments to Hungary. The HITA is comprised of six directorates in the areas of: investment promotion; business development; strategy and network management; communications and event management; legal and human resources; and finance.

The Investment Promotion Directorate's services range from tailored information packages for investor's on Hungary's economy, industrial sectors, incentives, supplier network, and business environment to location search and evaluation assistance. The IP Directorate also offers assistance in business expansion, supplier search, aftercare services and permitting procedures, along with the organisation of site visits and partner meetings.

The HITA attracts FDI through the promotion of Hungary's strong political and public institutional frameworks, skilled and cost efficient workforce, high quality infrastructure and competitive tax system and investment incentives. Job creation is a high priority of HITA's investment promotion activities. Due to its geographic proximity to international markets, Hungary serves as a central logistics hub for Europe and a prime location for companies looking to expand.

The agency's investment promotion activities are financed by cash grants (depending on individual government decisions), grants co-financed by the EU, development tax credit and job creation and training grants.

1. Relationship with regions

HITA primarily promotes investments in economically disadvantaged areas of Hungary. The agency provides assistance to 45 locations throughout Hungary through the Programme for Investor Friendly Locations, which aims to make the areas more attractive to foreign investors. The Programme offers advice in investment promotion, image building and communication.

The regional offices facilitate investments through the provision of on-site assistance, such as data collection and assessment of location suitability, and track local projects and opportunities that could attract investors. HITA has six regional offices and nine regional information points.

2. Level of autonomy

Attracting foreign investment remains a priority for the Hungarian government. From 1993-2011investment promotion and facilitation formerly fell under the responsibilities of the Investment and Trade Development Agency in Hungary (ITD). ITD used to be a state-owned, semi-autonomous agency reporting to the Ministry of Economic Affairs. In 2011 the investment tasks were designated to HITA. HITA is a governmental office, so it is part of public administration. It reported to the Ministry for National Economy until recently and currently reports to the Prime Minister's Office

3. Maturity of market

Hungary attracts more than a fifth of the total FDI in Central and Eastern Europe (CEE) and has the second highest FDI per capita in the region making it a mature market for foreign investments. Compared to the other CEE countries, Hungary's market is more mature and its efforts to privatise and attract foreign investments have contributed to the maturity of its economy. Hungary's developed financial markets and reformed legal system (as a requirement for EU membership) provides security for foreign investors.

4. Level of sectoral focus

The priority sectors for HITA are automotive and Shared Service Centres (SSC). The automotive sector accounts for 19.4 percent of the Hungarian gross industrial output. Original Equipment Manufacturers manufacturing in the country include Daimler Benz, General Motors, Suzuki and Audi. Around 70 shared service centres are operating in Hungary, including Morgan Stanley, Vodafone, Citibank, British Telecom) and employ around 30 000 people.

"Best" sectors

Other important sectors are biotechnology and pharmaceuticals, electronics, food/,agriculture; renewable energy, IT services and logistics. Hungary has the most developed pharmaceutical and biotech sectors in Central and Eastern Europe and is a top manufacturer of electronics in the region. The food industry is the second largest employer in Hungary and traditionally plays a significant role in Hungary's economy. Foreign investments in the food industry have contributed to the technological advancements to meet EU standards in terms of quality, hygiene, food safety and animal and environmental protection. ICT is another important sector as about 7.4 percent of the Total Value Added comes from ICT companies and around 91,800 employees work directly in the ICT sector. Hungary's telecommunications is highly advanced which has also positively impacted the shared service sector.

High potential sectors

Hungary's renewable energy sector has a great deal of potential due to its untapped resources and capacity- skilled labour and high-tech facilities including over 200 industrial and technology parks. favourable

5. Resource allocation to investment promotion

Information not available.

Invest in Andalucia

Invest in Andalucía-Spain is an initiative to attract high value FDI and support existing foreign companies with expansion activities in Andalucía. The agency assists investors with planning, implementing and growing their investments. Specific services offered include market analysis, site selection, tour coordination and IP advice. Connecting with service providers, technical contractors and suppliers, along with support in accessing finance and funding are also part of Invest in Andalucía services. A unique service that's not offered by the other IPAs is the 'Soft-landing' service to assist employees from large multinationals with integrating in Andalucía.

The agency is based in Seville and has 21 offices around the world to promote and facilitate foreign investments. The information provided on the website is limited, especially regarding the agency's performance. The documents in the 'downloads' section are mostly from Invest in Spain.

http://www.investinandalucia.es/

1. Relationship with regions

Unclear given the lack of public information.

2. Level of autonomy

Invest in Andalucía comprised of comprises the Agency for Innovation and Development of Andalucía and Extenda and the Trade Promotion Agency of Andalucía.

3. Maturity of market

Andalucía's main competitive advantages are in its comparatively low business costs, attractive financial incentives and excellent transportation infrastructure with ten commercial ports, six international airports and high-speed train connections. The incentive programmes provided the maximum level of support permitted in the EU and Andalucía to encourage business development and R&D. Subsidies as high as 30 percent of eligible investments or 50 percent for small businesses are available for companies investing in new facilities, job creation, technical innovation or production capacity building. Andalucía has a large export capacity and attracts a high level of FDI (exact figures not specified). The region's high productivity level and low costs have attracted more than 500,000 and it ranks second in terms of businesses at national scale.

4. Level of sectoral focus

Invest in Andalucía focuses on the promotion of five sectors, providing expertise in:

- Aerospace
- Renewable Energies
- IT & Communications (ICT)
- Biotechnology
- Agriculture & Food

Andalucía has more than 25 industrial clusters in the sectors listed above, plus clusters in maritime, petrochemicals, chemicals, energy and metals. Invest in Andalucía uses the OI Talent Map for investors to find qualified personnel in various regions.

5. Resource allocation to investment promotion

Information not available.

Invest in Bavaria

Invest in Bavaria, part of the Bavarian Ministry of Economic Affairs, Infrastructure, Transport and Technology, offers information and services to promote Bavaria as an ideal business location and support inward investors. Invest in Bavaria has a large network of industry players, research institutions and public administration departments in the top 19 sectors and serves as a liaison between the key networks and investors. As a one-stop service centre, Invest in Bavaria assists with the identification of the most advantageous locations for various businesses and establishing operations, and provides information on public financing options and regional data.

Bavaria's regional strengths in infrastructure, geographic proximity, innovation (with an R&D expenditure of three percent) and technologically skilled workforce, along with its culture and high standards of living, has made the region one of Europe's top markets and business locations.

1. Relationship with regions

Bavaria consists of seven regions, each economically strong with varying characteristics and strengths. The Invest in Bavaria website promotes all regions and details information highlighting different sectors per region. The two main cities of Munich and Nuremburg are the largest and internationally renowned cities in the region, where most exhibitions and conference centres are located. Invest in Bavaria's headquarters are based in Munich.

2. Level of autonomy

Well-integrated into national policy, Invest in Bavaria was established as part of the Bavaria Ministry of Economic Affairs, Infrastructure Transport and Technology with the aim of attracting investments and improving business development activities.

3. Maturity of market

Bavaria is a mature market as its GDP is larger than 20 of the EU member states' and GDP per capita is above German and EU averages. Bavaria's development has boomed in the past five years and is now home to subsidiaries of some of the world's top brand names, such as Allianz, BMW, Audi, Siemens and Adidas, along with a large number of SMEs. In 2011, over half of Germany's export originated from Bavaria. The unemployment rate in Bavaria is 3.8 percent, significantly lower than the German average of 7.1 percent. Bavaria also has a high self-employment rate of 12.1 percent.

4. Level of sectoral focus

Invest in Bavaria has a wide sectoral focus promoting Bavaria's competitive advantages in 19 sectors within mobility, biotechnologies, financial services, materials engineering and IT and electronics. The list of sectors is presented in the table below.

Mobility	Environment	Service and Media	Materials engineering	IT and Electronics
Automotive engineering	Biotechnologies	Media	Materials engineering	Information and communication technologies
Railway technology	Medical technologies	Financial services	Chemical industries	Power electronics
Logistics	Energy technologies		Nano-technologies	Mechatronics and

Mobility	Environment	Service and Media	Materials engineering	IT and Electronics
				automation
Aerospace	Environmental technologies			
Satellite navigation	Forestry products			
	Food processing industry			

Bavaria's services in finance, tourism, trade fairs and congresses and B2B services are also an important aspect of its economy. Bavaria is the number one service provider in Germany for insurance and number 2 in banking.

5. Resources allocation to investment promotion

Information not available.

Invest in Denmark

Invest in Denmark focuses on assisting foreign companies with establishing businesses or research activities in Denmark. Invest in Denmark provides investors with advice on locations in Denmark that match investor needs in terms of human resources, industry competences and infrastructure. Operating from offices throughout Europe, North America and Asia, Invest in Denmark uses its international network to provide foreign companies with tailored investment assistance services. Services include the provision of information and analysis of Danish business climate and investment incentives, as well as the organisation of 'fact-finding' tours and the facilitation of partnerships with local companies, public authorities and research institutions. The agency also provides aftercare programs to ensure the long-term growth of foreign companies.

1. Relationship with regions

The agency closely collaborates with regional and national agencies to ensure the solutions that they offer to investors are current and accurate. Invest in Denmark has formal long-term cooperation agreements with Denmark's regions and Copenhagen Capacity, the investment promotion agency of Denmark's capital city. The regional offices help Invest in Denmark in identifying business opportunities through close connections with local universities, innovation centres and companies, and provide valuable information on regional growth strategies and incentives. A regional network exists amongst the regions in the northern, central and southern regions of Denmark, and the Zealand region has a similar cooperation agreement with Invest in Denmark as well. The IPA website provides business case studies where cooperation among the regions played an important role in the set-up of foreign business in Denmark.

2. Level of autonomy

Invest in Denmark is a part of the Ministry of Foreign Affairs, and is therefore, integrated in national policy.

3. Maturity of market

Denmark, most commonly known as the country with the happiest people in the world, is a hub for European activities and a safe place for investment. Denmark is ranked as having the best business friendly climate in Europe by the World Bank Doing Business Report 2012, Forbes

Magazine 2010, Economist Intelligence Unit 2008-2012 and LocationSelector.com 2011. This is proven by the fact that foreign businesses can set up shop in one day and residence and work permits can be issued within 5 weeks. Denmark also has one of the most flexible labour markets in Europe with a highly productive workforce and no restrictions on overtime enabling Denmark to be open for business 24/7.

Denmark's infrastructure is highly developed and its ICT penetration rate in mobiles, broadband and PCs is one of the highest in the world providing a perfect test environment. Additionally, Denmark is a cost competitive country with the lowest office rentals and corporate taxes in Scandinavia, along with competitive salary levels, especially for management and scientists.

4. Level of sectoral focus

Information & Communications Technology (ICT), Life Sciences, Cleantech and Maritime industry are the main sectors promoted by Invest in Denmark due to Denmark's competitive strengths in these sectors.

- CLEAN-TECH
    - Wind power
    - Bioenergy
    - Smart Grid
- ICT
    - Wireless and mobile technology
    - Software development
    - Sound technology
- LIFE SCIENCES
    - BioTech
    - MedTech
- MARITIME
    - Shipping
    - Offshore
    - Advanced maritime technology

Denmark is home to several clusters in these fields of expertise. The life science cluster is one of the strongest in Europe and investments in biotechnology were the second highest in Europe at EUR 3.4 billion. The clean-tech industry of 1,110 Danish companies employs 60,000 people with exports valued at EUR 12 billion. Nearly 20 percent of electricity in Denmark is generated by wind power and the industry controls one-third of the global wind energy market. The Government is launching an agenda to boost growth in the maritime cluster.

5. Resource allocation to investment promotion

Information not available.

Invest in Finland

Invest in Finland, a government agency responsible for investment promotion, in 2012 merged with FinPro, a consulting organisation that accelerates the internationalisation process of Finnish enterprises. The merger provides greater opportunities to increase FDI to Finland by tapping into Finpro's resources, global network and expertise in various sectors and target markets. Invest in Finland helps foreign investors in all phases of setting up a business in Finland. Specifically, Invest in Finland offers data collection and market analysis services, advice on entry modes, access to a network of public, private and academic institutions, and assistance in finding and negotiating with legal, financial, recruitment, marketing and real estate service providers.

1. Relationship with regions

Invest in Finland leads a network of regional development agencies (RDA) called SEKES (the website is only available in Finnish). Each RDA is responsible for carrying out investment promotion and facilitation activities. Invest in Finland's partner network includes the centres for Economic Development, Transport and the Environment (ELY centres), Finnish Science Park Association (TEKEL), Finnish Funding Agency for Technology and Innovation (Tekes) and the Ministry of Foreign Affairs.

2. Level of autonomy

As a government Agency, Invest in Finland is strongly integrated in national policies. The Agency fully funded by the Ministry of Employment and Economy, and therefore its activities are determined by the Finnish Government's economic and innovation policies.

3. Maturity of market

Finland has a mature, knowledge-based and innovative economy. Finland's economic conditions and resources are attractive aspects, however, high income taxes and an inflexible labour market are deterrents. Finland's membership in the EU dates back to 1995 and is currently the only country in Northern Europe that has adopted the Euro as its single currency. Finland's strong legal and enforcement framework for competition is fully harmonised with the European Community law and serves as a safe investment environment. Finland holds bilateral investment agreements with 64 countries.

The Government offers investment incentives to foreign-owned companies and Finnish companies alike via cash grants, loans, tax benefits, equity participation, guarantees, equity participation and employee training.

In 2011, 173 new foreign companies set up businesses in Finland. Slightly over half of FDI in Finland came through business acquisitions. Mergers and alliances are becoming more prevalent in the Finnish banking sector. Statistics Finland reported an increase of 2.7 percent in GDP, totalling EUR 189.4 billion, and investments increased 6.8 percent in 2011.

4. Level of sectoral focus

Invest in Finland is promoting Finland's strengths in the following sectors:

- Cleantech
- Healthcare and wellbeing
- ICT
- Mining
- Business services
- Retail
- Travel and tourism

Of these sectors ICT, business services, healthcare and wellbeing, retail trade and clean-tech attracted the most FDI in 2011. Finland's high-tech clusters consist of many small companies with skilled workers but require more capital and improved access to global markets. Business services' percentage of GDP has nearly doubled from 7.7 percent in 2006 to 14.5 percent in 2010. This sector is expected to increase as outsourcing is growing.

5. Resource allocation to investment promotion

The merger of Invest in Finland and FinPro has increased the amount of resources allocated to investment promotion, whereas before resources were limited compared to other IPAs.

Invest in France

Invest in France (IFA) is the national agency responsible for supporting foreign investors and improving France's business image and attractiveness overseas. IFA is the go-to agency for information on legal regulations, state aid packages and administrative formalities related to setting up a business and relocating staff. The IFA also advises on business site selection and acts as a government intermediary connecting investors with local authorities, government representatives and elected officials.

The IFA together with regional development agencies recorded 782 new foreign investment projects with an estimated value of EUR 24 billion. The number of projects increased 22.4 percent from the year before and resulted in creating or safeguarding 32,000 jobs.

1. Relationship with regions

The IFA partners with 22 regional development agencies to carry out its objectives of promoting and facilitating foreign investments. Investment incentives in the form of financial subsidies and tax incentives are aimed at attracting investments to France's depressed or "less affluent" areas.

2. Level of autonomy

Established in 2001, the IFA is a national governmental agency that reports to the Ministry of Economy and Regional Development. The mandate of the IFA overlaps with that of the French Interministerial Delegation for Regional Development and Economic Attractiveness (DATAR) in terms of promoting France as attractive location for investments. Although DATAR's responsibilities encompass more general regional initiatives, both agencies assist potential investors and ensure that Government policies are enhancing France's economic attractiveness.

3. Maturity of market

In 2011, the IMF ranked France as the second largest consumer market in Europe, after Germany, and the fifth largest economy in the world. According to UNCTAD, France received the fourth largest amount of FDI in Europe in 2010.

More than 20,000 foreign companies have set up their operations in France. Foreign companies play an important role in the French economy as they employ over two million people and account for one-third of French exports and 22 percent of the corporate R&D. A number of tax, labour, and pension reform initiatives in 2007 and 2010 have contributed to France's improved business environment, although taxation and labour costs are still weak areas in terms of cost competitiveness. France's administrative burdens in the labour market and registering properties are also subject to improvements. The Government's "National Pact for Growth, Competitiveness and Employment" addresses these issues by implementing new competitiveness and employment tax credit in January 2013, as well as enforcing other measures to simplify administrative procedures.

France has a total of 71 innovation clusters across all businesses sectors forming partnerships between private businesses, public research facilities and universities. A recorded 760,000 people, including 268,000 highly skilled employees, worked at companies within the clusters as of December 31, 2008. The clusters' R&D and innovations activities have attracted a number of technology and knowledge-intensive investment projects.

4. Level of sectoral focus

The IFA website does not provide specific information on each of France's key sectors. Instead, the IFA mentioned the country's general strengths in its digital economy covering telecommunications, IT services, software, electronics, broadcasting and web services.

5. Resource allocation to investment promotion

It is not clear how much resources are allocated to investment promotion, but one can conclude that it is a large portion of government funds considering the number of government agencies involved in promoting investments to France and the Government's emphasis on improving France's economic attractiveness.

Invest in Greece

Invest in Greece in the investment promotion agency in Greece leading efforts to develop new business and providing investor support services guiding with detailed analysis, expert advice and following the investments through to aftercare. The agency is a one-stop-shop comprised of five units including investment promotion, investor services, policy and planning, communications and administration and finance. The investment promotion branch is involved in outreach activities that emphasise Greece's competitive advantages and investment opportunities.

1. Relationship with regions

Invest in Greece has a large network of stakeholders in each of the 13 regions in addition to the regional Chambers of Commerce, business associations and industrial federations. A map of all the regions provides investors with basic economic facts, investment incentives and the contact information of the investor service centre per region. The regions and respective agency websites are below:

- Eastern Macedonia & Thrace - www.pamth.gov.gr/
- Central Macedonia - www.pkm.gov.gr
- Western Macedonia - www.pdm.gov.gr/
- Epirus - www.php.gov.gr/
- Thessaly - www.pthes.gov.gr/
- Ionian Islands - www.pin.gov.gr/
- Western Greece - www.pde.gov.gr/gr/index.php
- Sterea Ellada (Central Greece) - http://portal.stereahellas.gr/
- Attica - www.patt.gov.gr/main/index.php
- Peloponnese – www.ppel.gov.gr/
- North Aegean - www.pvaigaiou.gov.gr/web/guest/home
- South Aegean - www.pnai.gov.gr/
- Crete - www.crete.gov.gr

Invest in Greece taps into this network to maintain up-to-date information on sectors in key growth areas and promote these sectors to the business community. The agency also uses the network for outreach activities that promote the regions abroad. The Synergassia, or collaboration, Programme is a stakeholder development plan implemented by Invest in Greece to ensure that the commercial and economic counsellors of Foreign Embassies in Greece are fully informed of investment opportunities throughout all regions. To this extent, the agency organises meetings and workshops on macroeconomic figures and regional investment profiles, as well as site visits to showcase successful business stories.

2. Level of autonomy

Invest in Greece operates under the supervision of the Ministry of Development, Competitiveness, Infrastructure, Transport and Networks. The agency is integrated in national policy and is the responsible body for carrying out the "Acceleration and transparency of implementation of Strategic Investments" law. In 2013, the Ministry of Development plans to merge Invest in Greece with the Export Promotion Organisation.

3. Maturity of market

Greece is undergoing significant reforms to improve its business environment, public administration and establish a stronger bond between the public and private sectors. Attracting foreign investments is a top priority of the Greek Government. The financial support packages received from the IMF, EU and ECB in 2009 negatively affected the country's GDP. Since then, public financial consolidation has been in place and reforms promise an improved investment climate. As part of the reforms, the Development Ministry plans to reduce business start-up costs by 50 percent and simplify licensing procedures for business parks. FDI levels are satisfactory but are increasing with net FDI inflows of over EUR 1.3 billion.

Incentive packages are offered for investments in the following categories: entrepreneurship; regional cohesion; technological development; youth entrepreneurship; large investment plans; integrated, multi-annual business plans; partnership and networking (clustering).

4. Level of sectoral focus

Invest in Greece focuses on six sectors for investment, including:

- Tourism
- Energy
- ICT
- Life Sciences
- Food & Beverage
- Environmental Management

Tourism is a key driver of the Greek economy accounting for 18 percent of Greece's GDP and employing an estimated 900,000 people. The Food and Beverage industry is also an important driver with an average growth rate of 20.6 percent and accounts for 24 percent of employment. Energy is an emerging sector with high potential as Greece has an abundance of natural resources and its energy policy favours foreign investment. The ICT sector in Greece is improving thanks to the National Digital Strategy (2006-2013).

5. Resource allocation to investment promotion

Information not available.

Invest in Spain

Invest in Spain is a government corporation with the overarching responsibility of attracting, promoting and facilitating foreign investment in Spain. The corporation's strategy is to capture investments in the areas with the highest growth potential and build Spain's image as a competitive and increasingly internationalised country with quality resources and technological capabilities. Invest in Spain plays a central role in fostering a strong investment climate through strengthening the relationship with institutions involved in FDI, ensuring that the needs of investors are met and enhancing infrastructures and means to attract FDI.

1. Relationship with regions

Invest in Spain is closely connected with each of the 17 regions. The information provided on the regions is well organised and extremely comprehensive. The descriptions of each of the regions include a summary of economic indicators; unique reasons to invest in the region, including appealing maps and graphs; information on specific sectors; aid & incentive programs; success stories; and a list of active foreign companies in the given region.

Regional financial incentives indicate a preference for increased investments in depressed regions to alleviate regional imbalances and emphasise each region's development potential. The incentives targeting depressed regions are granted by the EU and are supplemented by the Spanish Government's development plans.

2. Level of autonomy

Invest in Spain was created in 2005 as part of the Secretariat of State for Trade within the Ministry of Economic Affairs and Competitiveness. Instituto Español de Comercio Exterior (ICEX) is the sole shareholder of Invest in Spain. The corporation's activities are stipulated by article 176 of the Law 33/2003 and closely monitored and evaluated by the Ministry of Economic Affairs and Competitiveness. Despite being a governed by a public body, Invest in Spain operated according to labour legislation for private enterprise. Additionally, the corporation has its own budget, which is integrated into the general budget of the Secretariat of State for Trade. Furthermore, the corporation is subject to state control, especially in regards to economic, financial and contractual issues.

3. Maturity of market

Spain's attractive business environment is attributed to its human and technological resources, sophisticated infrastructure and competitive economy. Spain is a knowledge-based economy with services accounting for nearly 70 percent of its economic activity in 2011.

According to the World Investment Report 2011, Spain is the seventh largest recipient of FDI in the world. Spain boasts competitive costs in terms of salaries, office and industrial warehouse rentals and telecommunications, along with costs related to business operations thanks to the country's tax deductions and moderate corporate tax. Spain also has some of the best R&D and innovation incentives in the OECD, next to France, and hosts 80 technology parks with over 5,115 companies.

4. Level of sectoral focus

Unlike some of the other IPAs, Invest in Spain focuses on promoting only a few key sectors. Similar to the presentation of the regions, each sector is clear and detailed. Invest in Spain offers an overview of each of the sectors, a long list of business opportunities, relevant current affairs/news articles and documents, as well as case studies per sector. If the investor needs additional information, the name of the industry expert within the agency and contact information is easy to locate as it is presented at the top of each section.

The key sectors include:

- Aerospace
- Automotive
- Biotechnology, Pharmacy and Life Sciences
- Environmental
- ICT
- Renewable Energy

All of these targeted sectors bring a high amount of technological added value to the Spanish economy. One out of every three new investment projects in the past five years has been tech-related involving a high level of R&D and innovation. Particular emphasis is placed on the biotechnology and pharmaceutical sector, as it is one of the most internationally dynamic and competitive industries.

5. Resource allocation to investment promotion

Information not available.

Invest Lithuania

Invest Lithuania is a government agency that offers investment assistance from set-up and project management to aftercare services. As the main point of contact for foreign businesses seeking to invest in Lithuania, the agency informs investors about Lithuania's business climate, financial incentives and investment opportunities and helps match investors with local partners. The information provided on the agency's services and performance is less extensive than other IPAs, which may be due to the fact that the agency was newly formed in 2010. Attracting and facilitating foreign investments were previously the responsibilities of the Lithuanian Development Agency, but as of February 2010 it was restructured into two separate public organisations; Invest Lithuania and Enterprise Lithuania.

The Government of Lithuania via the Ministry of Economy is implementing an Investment Promotion Programme (2008-2013) that aims to improve Lithuania's investment environment and effectively promote direct domestic and foreign investments. The objectives of the programme overlap with Invest Lithuania's mandate; however, the role of the agency in this programme is not specified.

1. Relationship with regions

The agency's relationship with regions is not clear, as information is not provided on the regions. Vilnius was recognised by the fDi Magazine as one of the best performing regions in the world with an increase in FDI of 100 percent.

2. Level of autonomy

As the Ministry of Economy was the sole owner of the Lithuania Development Agency, one can assume that the Ministry of Economy has some authority over or involvement in Invest Lithuania's activities, although it is not clear given the information provided on the agency's and the Lithuanian Government's websites. The Ministry of Economy is highly involved in investment promotion, not only through the 2008-2013 investment program, but also representatives of the Ministry regularly meet with major international companies abroad and invite them to set up in Lithuania.

3. Maturity of market

The attractiveness of Lithuania as an investment location is attributed to its competitive labour costs, communication infrastructure, multi-lingual and highly educated workforce, strategic geographical location and high quality of life. Lithuania's GDP growth rate reached 5.8 percent in 2011 and cumulative FDI has steadily increased since 2008 totalling nearly EUR 11 billion in 2011.

Lithuania lacks transparent information on tax collection and government procurement and other barriers to investment still exist. The Government is actively trying to improve the business and investment climate through working with the private sector and offering financial investment incentive programs.

4. Level of sectoral focus

Invest Lithuania promotes the following sectors:

- Shared Services and Business Process Outsourcing (BPO)
- ICT
- Research & Development
- Medical Devices
- Transport and Logistics
- Cleantech
- Biotechnology
- Chemicals and Plastics
- Metal Processing
- Lasers and Electronics

Particular emphasis is placed on Lithuania's life sciences industry with an annual growth rate of 20 percent. Biotechnology, lasers and medical devices are included in this sector.

5. Resource allocation to investment promotion

Information not available.

Invitalia

Invitalia is the government agency for inward investment promotion and enterprise development. Invitalia advises businesses on investment opportunities in Italy and assists investors throughout all stages of the investment process from pre-investment information to business set-up or expansion to aftercare services. Invitalia also works at the national level to increase Italy's competitiveness and support sectors that will boost innovation and industrial development.

1. Relationship with regions

Invitalia particularly aims to increase the competitiveness of Southern Italy. The focus on Southern Italy began during the 2000s due to the regions' high rates of long-term unemployment, large underground economy and widespread inactivity. Subsidies for investments in the South are 40 percent of eligible investments, which is twice the amount of the investments in the North or Central regions.

Each of the regions has a Regional Development Agency (RDA), which are fully autonomous from the State and their status, mission and strategies vary greatly. The RDAs were formed as special agencies of the Chambers of Commerce, such as Firenze, Campania and Lombardy, others as stock companies, like Abruzzo and Emilia-Romagna, or in partnership with local business associations. Although the RDAs' activities vary, all provide support for Italian businesses and assist with business development. RDAs are present in each of the regions:

- Abruzzo
- Basilicata
- Calabria
- Campania
- Emilia Romagna
- Friuli Venezia Giulia
- Lazio
- Liguria
- Lombardy
- Marche
- Molise
- Piedmont
- Apulia
- Sardinia
- Sicily
- Tuscany
- Trentino Alto Adige
- Umbria
- Valle d'Aosta
- Veneto

2. Level of autonomy

Invitalia is a government agency that collaborates with a number of other government departments to improve Italy's business and investment climate. Invitalia performs activities on behalf of the Ministry of Economic Development, including organizing investment promotion events and managing two financial support packages.

3. Maturity of market

Italy is the fourth largest economy in Europe with access to around 60 million consumers. Several structural reforms have been implemented to improve the investment climate, such as reducing the heavy tax burden, simplifying the process for establishing a new business, new provisions allowing greater flexibility and choice in corporate governance and labour market reforms. Italy is a secure location for innovation as foreign companies have the same legal protection of intellectual property rights (IPR) as Italian companies. The long list of modern intellectual property practices from combat counterfeiting to merging and simplifying patent and trademark rules attest to Italy's strong IPR environment. Italy ranks sixth in terms of patents granted and fourth for registered trademarks among the G12 countries, which is an indication of the country's innovative output. Italy also has a large network of public universities and private institutions and a network of over 40 science and technology parks.

Italy's SMEs are important contributors to the country's economic growth, particularly in high quality consumer goods and high-tech design and engineering products. Most of the SMEs belong to or work within specialised clusters.

The country's investment incentives range from tax credits to R&D grants and loans. Special attention is given to programs that provide high returns including the construction of new facilities or renovation of existing ones, research in technological innovation and science or job creating investments.

4. Level of sectoral focus

Invitalia promotes five sectors and includes information on Italy's assets/competitive advantages, incentives, investment opportunities, foreign companies already in Italy and/or testimonials. The key sectors are:

- Logistics
- ICT
- Life sciences
- Renewable Energy Sources
- Tourism

5. Resource allocation to investment promotion

Information not available.

Ireland Industrial Development Authority

Ireland Industrial Development Agency (IDA) is the inward investment promotion agency responsible for attracting and facilitating foreign investment in Ireland. IDA focuses on attracting investments in the areas of high-end manufacturing, global services (i.e. financial services), R&D and innovation. The broad range of services provided by IDA cover the provision of information related to key sectors and suitable business locations, as well as assistance with setting up a business in Ireland and identifying local business partners.

IDA attracts investments by targeting sectors that match the current and future needs of the Irish economy; building world class clusters of knowledge-based activities to transition Ireland into a knowledge-based economy; linking international businesses with universities and research centres to ensure an abundant supply of R&D capabilities; providing support to the development of infrastructure, business services and the regulatory environment to enhance Ireland's competitiveness.

In 2010, IDA laid out Ireland's ten-year FDI strategy in Horizon 2020. As part of this strategy, IDA is focused on building Ireland's image abroad and online. The Horizon 2020 also aims attracting at least 20 percent of Greenfield investments originating from emerging markets by 2014 to diversify sources of FDI. To help achieve this goal, IDA has recently set up offices in Shanghai, Shenzhen, Mumbai, Bangalore, Singapore, Moscow and Sao Paolo.

FDI is an important economic driving force in Ireland contributing over EUR 19 billion to the Irish economy in 2011. IDA's solid performance in 2011 strongly influenced this high level of FDI by facilitating 148 investment projects and creating over 13,000 new jobs.

1. Relationship with regions

IDA focuses on strengthening the local potential for attracting FDI through the National Spatial Strategy (NSS). The NSS aims to equally distribute investments across Ireland with a strategic focus on the development of critical infrastructure, properties and large-scale sites. IDA, therefore, promotes all regions and highlights regions with available property in the business and technology parks, along with sites that are deemed strategically important (http://www.idaireland.com/locations/regions-of-ireland/).

2. Level of autonomy

IDA is an autonomous statutory agency operating in accordance to the Industrial Development Acts 1986-2009, however, the Minister of Jobs, Enterprise and Innovation provides funds and has the authority to oversee IDA's activities.

3. Maturity of market

Forbes, Heritage Foundation, Foreign Direct Intelligence and the IMD World Competitiveness Yearbook recognise Ireland as one of the most competitive and business-friendly environments in the world. Ireland ranked highly in terms of economic freedom, availability of labour, attitude towards globalisation, openness to foreign investors, flexibility of workforce and investment incentives. Other attractive features for investment include Ireland's low corporate tax rate at 12.5 percent and low labour costs, which are below Euro Area average. The Government aims to continue to improve the business environment and build Ireland's reputation as a hub for R&D and innovation. Ireland, as stated in the overview, attracted a record amount of FDI in 2011. Ireland's GDP growth returned to pre-crisis levels and export performance continues to grow with a growth rate of 5.1 percent in 2011.

4. Level of sectoral focus

One of the key growth sectors for foreign investment in 2011 was the services sector. Other sectors including ICT, life sciences, engineering, digital media, games and social media are also attractive sectors for foreign businesses. The main sectors promoted by IDA are:

- Business Services

- Consumer Products
- Clean Technology
- Entertainment & Media
- Industrial Products & Services
- Information & Communications Technologies
- ICT - Cloud Computing
- International Financial Services
- Life Sciences – Medical Technologies
- Life Sciences – Pharmaceuticals
- Emerging Businesses

Future emphasis will be placed on emerging areas including clean technology, convergence and services innovation. Ireland's economy is well suited to attract investments in these areas due to its strong track record in services and favourable climate and geography for clean technology.

5. Resource allocation to investment promotion

The grant for promotional and administrative expenditure, part of the Oireachtas Grant, was EUR 37.4 million in 2011, which is a decrease of nearly EUR 1.9 million from the year before. The actual expenses incurred for marketing, consulting, promotions and advertising during 2011 was EUR 8.9 million, compared to EUR 9.9 million in 2010.

The Oireachtas Grants as shown in the Financial Statements consist of:

	2011	2010
	€'000	€'000
Grant for Promotion and Administration Expenditure	37,377	39,240
Grant for Industry	84,841	90,460
Grant for Industrial Property	11,000	1,000
	133,218	130,700

Malta Enterprise

In line with its mandate of sustaining Malta's overall competitiveness, Malta Enterprise promotes trade and investment along with enterprise and industrial development. Malta Enterprise's FDI promotion and facilitation services cover advice on setting up a business; information on funding, finance, employment and operations; meeting arrangements with key contacts and advisors; competitive prices for industrial properties; and aftercare services. Additionally, Malta Enterprise supports businesses in the internationalisation process and administers national and EU-funded incentive programs.

As a provision in the 2003 Malta Enterprise Act, Malta Enterprise came into existence in January 2004. The Corporation took over the responsibilities of the former investment promotion agency, import-export promotion agency and the small business support service centre. Malta Enterprise is the sole national representative of commercial and financial initiatives, and as of 2010, is responsible for the management of Malta Industrial Parks, Ltd.

In 2011, Malta Enterprise approved 42 investment projects valued at EUR 167 million and created more than 950 jobs. In comparison to 2007, the total number of projects and jobs created have declined, however, the value of FDI projects increased by nearly EUR 100 million. Malta's Enterprise's investment promotion strategy in 2011 focused on the recruitment and training of regional experts to develop and implement business plans. Malta Enterprise generated a total of 183 leads from 35 countries.

According to a customer satisfaction survey conducted by MisCo at the end of 2011, Malta Enterprise and Malta Industrial Parks received high scores in securely handing information and courteousness, but improvements can be made in responsiveness particularly in the provision of information and creation of personal relations, as well as follow-ups to meetings.

1. Relationship with regions

Malta Enterprise does not distinguish the differences amongst regions, presumably due to its small geographical size. The Corporation operates from two offices in Malta; Pietà and Gozo in addition to six international offices.

2. Level of autonomy

Government Policies and Priorities 2011/2012: Vision 2015 guide Malta Enterprise's programmes and services. Collaborating with government agencies and stakeholders enables Malta Enterprise to strengthen the island's comparative advantages and respond to economic trends. The Corporation is governed by a Board of Directors.

3. Maturity of market

Malta is an open market economy with a pro-business government that aims to increase Malta's attractive business environment. Malta's FDI flows in 2010 surpassed the 2007 pre-crisis level reaching a total of EUR 775 million, however, FDI flows in 2011 experienced a significant dip decreasing from EUR 593 million to EUR 210 million in the first three quarters. Despite the drop in FDI, Malta's GDP experienced a growth of 2.1 percent, which is quite well compared to the EU average. Unemployment is also relatively low at 6.7 percent, but Malta is faced with skilled labour shortages.

4. Level of sectoral focus

Following the Government's Vision 2015, Malta Enterprise focuses on the development of seven key sectors:

- Creative Industries
  - Information and Communications Technology, Digital Media, Design, Renewable Energy and Efficiency, Arts and Crafts, Online gaming, Film Editing and Production and Fashion
- Financial Services
  - Banking, Funds Management, Captive Insurance and Trusts
- Tourism
  - Cultural Tourism, Eco-Tourism, Educational tourism, Cruise Ships Destination, Shorter Duration Travel and Association Conferences
- Advanced Manufacturing
  - Aircraft Modification, Engineering Services, Plastics/Advanced Materials
- International Educational Services
  - Educational Services for Tourism including Language Schools, Centre of Continuing Education
- Life Sciences / Health Services
  - Pharmaceuticals, Pre-Clinical Trials, Health Tourism, Rehabilitation Care
- Transportation and Logistics
  - Merchant Shipping, Related Shipping Services, Ship Management and Registration, Yachting /Super Yachting Services, Yachting Crew Training, Ship Repair

Malta's economy is transforming into a knowledge-based economy. Emphasis is placed on promoting and attracting high value added manufacturing and service activities, including generic pharmaceutical manufacturing, aircraft maintenance and overhaul activities. Tourism is a traditional industry that remains highly important to Malta's economy today. Significant growth has occurred in diversified industries such as financial services, ICT, real estate, Internet gaming and business activities.

5. Resource allocation to investment promotion

Malta Enterprise's 2012 budget allocates resources for introduction new investment promotion measures to boost the development of high value-added sectors and competitiveness across all sectors. These measures include upgrading industrial facilities and improving energy-saving and clean technologies. The details of the budget are not provided.

Netherlands Foreign Investment Agency

The Netherlands Foreign Investment Agency (NFIA) is the first point of contact for investors seeking to establish or expand business operations in the Netherlands. For over 30 years NFIA has supported and enhanced the Dutch investment climate through the provision of services such as information on Dutch business regulation and incentives, the simplification of legal procedures and the facilitation of partnerships with relevant contacts in industry and government, particularly matchmaking assistance for technology companies.

NFIA is headquartered in The Hague and has presence in the UK, Turkey, North America, Asia and the Middle East. The agency also works closely with embassies, consulates and other Dutch government affiliated organisations abroad.

In 2011, the NFIA's supported a record high of 193 projects valued at EUR 1,5 billion. The investments led to the creation of 3,530 direct jobs and the retention of 828 jobs. One-third of the foreign business set up operations in the Amsterdam metropolitan area. The most capital-intensive investment project attracted by the NFIA in 2011 was the EUR 815 million investment in a gas storage facility in Bergermeer, North Holland by TAQA from Abu Dhabi, UAE.

1. Relationship with regions

Regional profiles of the Netherlands' 12 administrative provinces offer an overview of the region's economic facts, key industries and strengths, foreign companies and accessibility. The NFIA is implementing the Investment Development Programme in cooperation with a large network of regional development companies, provinces and municipalities including the Investment and Development Agency for the Northern Netherlands (NOM), Development Agency East Netherlands (Oost NV), Invest in Utrecht, Amsterdam Inbusiness (foreign investment agency of the Amsterdam Metropolitan Area), West Holland Foreign Investment Agency (WFIA), Rotterdam Investment Agency (RIA), BOM Foreign Investments, and Limburg Development and Investment Company LIOF. The Investor Development Programme provides investors with advice and support on issues related setting up operations in the Netherlands.

2. Level of autonomy

The Ministry of Economic Affairs, Agriculture and Innovation founded the NFIA. The NFIA's policies are integrated into national policy, specifically innovation and R&D policies.

3. Maturity of market

The Netherlands has one of the most open trade and investment policies in the world with a highly competitive pro-business environment. The attractiveness of the Dutch investment climate is characterised by its low corporate tax rate (25.5 percent), stable political and macroeconomic environment, educated and productive workforce, and high quality infrastructure. The Netherlands' business environment is ranked highly according to The World Economic Forum (WEF) Global Competitiveness Index and The Economist Intelligence Unit (EIU) 2008-2012.

The Netherlands is the second largest recipient and second highest supplier of investment capital of the OECD countries in terms of inward and outward FDI stock, respectively. Business laws and regulations comply with international legal practices and apply equally to Dutch and foreign companies. The high Dutch labour costs and labour market imperfections have, therefore, not deterred foreign investors from setting up in the Netherlands.

4. Level of sectoral focus

The high growth sectors attract the most FDI. These sectors include ICT, biotechnology, medical technology, machinery and equipment and electronic components. Investment projects are mainly in machinery and equipment, value-added logistic and luxury foods. The Netherlands is one of the most popular destinations for FDI in ICT and biotechnology in Europe.

The NFIA website, unlike other IPAs, does not have a separate section on their website for sector-specific details. Instead the sectors are merely listed within the regional profiles. Besides the sectors just mentioned, the Netherlands also specialises in renewable energy (bio-mass and wind), creative sectors (advertising, gaming and fashion), business and finance services, as well as chemicals.

5. Resource allocation to investment promotion

The agency's total budget in 2009 was EUR 11 million for promoting the Netherlands as an investment location (Source: textbox within this article: http://www.nfia-india.com/news/38/Asian-Entrepreneurs-going-to-the-Netherlands.html). More recent figures are not available.

North Rhine-Westphalia Invest

North Rhine-Westphalia Invest (NRW.INVEST) is a state-owned economic development agency serving the needs of investors from start-ups to expansions to aftercare. As a one-stop-shop, NRW.INVEST offers investors with information on investment projects or business locations in North Rhine-Westphalia. Their services cover advice on tax and legal issues, information on industry clusters and investment plan analysis.

NRW.INVEST is based in Düsseldorf and has subsidiaries in the US and Japan, along with branch offices in China, India, Korea, Russia and Turkey.

1. Relationship with regions

NRW.INVEST cooperates with the regional development agencies, but the details of the cooperation are not specified.

2. Level of autonomy

NRW.INVEST GmbH is solely owned by the state government of North Rhine-Westphalia; represented by the Ministry for Economic Affairs, Energy and Industry. NRW.INVEST, established in 1960, works in close collaboration with local and regional development agencies in the state and firms, associations, chambers of commerce and industry, among others to promote investments to the region.

3. Maturity of market

North Rhine-Westphalia is the number one investment location in Germany, attracting nearly EUR 190 billion in FDI in 2010, and the largest economy in Germany. In 2011, North Rhine-Westphalia's GDP of EUR 568.9 billion represented 22.1 percent of the total German GDP and an estimated 4.5 percent of the EU's GDP. North Rhine-Westphalia is not only a location for foreign companies (hosting 14,300), but also a prime spot for German companies as 19 of the 50 largest companies in Germany are based there. North Rhine-Westphalia boasts top results in industry, science and research with the densest research network in all of Europe. It serves as an important logistics location and has the largest inland port.

4. Level of sectoral focus

NRW.INVEST has an extensive list of important services in the region, including:

- Automotive
- Biotechnology
- Chemicals
- Energy
- Environmental technology
- Food
- Healthcare
- Information and communications technologies
- Innovative materials
- Logistics
- Mechanical engineering
- Media
- Microsystems technology
- Nanotechnology
- Plastics

North Rhine-Westphalia is an important location for the automotive and chemicals industries. Approximately 800,000 cars and commercial vehicles are produced for export every year. The chemicals industry in this region ranks 5th in the EU and 13th worldwide in terms of sales totalling EUR 49.2 billion. North Rhine-Westphalia's high-tech research-oriented environment makes it an attractive investment location for biotech, microsystems technology, ICT and nanotechnology. Its media sector is also strong as it hosts 52,000 media and communications companies with approximately 366,000 employees and sales of EUR 121 billion.

5. Resource allocation to investment promotion

Information not available.

Paris Region Economic Development Agency

The Paris Region Economic Development Agency's (PREDA) mandate is to attract foreign investment to the region in order to stimulate development and boost employment. PREDA's offers support to investors interested in setting up and developing businesses in the region, and, as of 2012, PREDA provides SMEs with assistance in the internationalisation process. PREDA also promotes ecologically sustainable development by encouraging new foreign business to establish operations using environmentally responsible methods. Attracting foreign investments in eco-activities and renewable energies, as well as R&D activities, are top priorities.

Services for assistance to foreign investors with the establishment of new businesses cover location and potential partner identification, staff recruitment, legal and tax advice, media promotion and general information dissemination.

As part of PREDA's plan to expand its international growth, new offices opened up in 2011 Shanghai, San Francisco, Boston and Tel Aviv; adding on to its extensive international network stretching to Santiago, Hanoi, Antananarivo, Beirut, Kayes, Nouakchott and Johannesburg.

1. Relationship with regions

PREDA included supporting depressed areas, particularly the areas on the outskirts of the region, as part of their objectives in 2007-2009. The region consists of eight counties of which Paris county has the highest concentration of foreign group establishments and is second to Hauts-de-Seine in terms of number of employees working for foreign companies. In all counties, the US, UK and Germany nationals account for a large portion employees working for foreign groups.

Six of France's nine competitiveness clusters are based in Val-d'Oise making it a hub for technologically-oriented business sectors. Essonne has a high concentration of researchers in the fields of telecommunications and the life sciences and is host to 250 business zones spanning 300 hectares. Once considered a depressed region, Seine-Saint-Denis now has an annual growth rate of eight percent and is home to the country's second largest university cluster. Val de Marner plays a significant role in the development of health and biotechnology, eco-business, digital technology and the food industry. Seine-et-Marne is the region's largest and most diversified county with economic activities ranging from oil drilling to tourism-related activities due to Disneyland and its UNESCO World Heritage Sites. Château of Versailles and Château of Saint-Germain-en-Laye are located in Yvelines, which also attracts a significant amount of tourists.

PREDA's website has a free online interactive map, Econovista, to help investors see what the Paris region has to offer.

2. Level of autonomy

PREDA partners with the economic development agencies on implementing promotional and marketing campaigns as well as providing necessary services to incoming foreign businesses. In 2001, the Chamber of Commerce founded PREDA and has maintained a central role in its governance up until today.

3. Maturity of market

The Paris region is a highly competitive, innovative and diversified economy. Paris is home to nine competitiveness clusters and is Europe's top region in terms R&D expenditure and number of R&D personnel. Paris is also the world's leading tourist destination and hosted nearly 400 tradeshows and an estimated 260 conventions in 2010 alone. According the a KPMG survey in 2010, Paris' business set-up costs are amongst the lowest compare to other major cities in the world and ranks high on the OECD's ease of establishing a business.

The region accounted for 29.5 percent of France's GDP and 4.7 percent of the EU's GDP in 2009. In 2010, more than 240 foreign companies set up businesses in Paris and international investments led to the creation of 8,400 jobs. Additionally, 16,700 subsidiaries of multinational firms accounted for 14 percent of total employment in Paris.

4. Level of sectoral focus

Key sectors: aeronautics; automotive; cosmetics; eco-technologies; image and multimedia; logistics; life sciences; financial services; and ICT. Paris is one of the world's top destinations for industrial and service sector locations, particularly business services sectors. The region's nine high-tech clusters make it a hub for innovation in engineering, ICT, medical and healthcare services, transportation and finance.

5. Resource allocation to investment promotion

The Government has increased funding for the promotion of key sectors mentioned in the previous section. The amount of resources was not specified.

Portugal Global

Portugal Global Trade and Investment Agency (AICEP) is a government business entity responsible for attracting investments to Portugal and assisting Portuguese companies in internationalizing and exporting. Established in 2007 through the merger of API and Icep (former investment and economic promotion agencies), AICEP attracts FDI by supporting foreign investors in all phases of the investment process and promoting the overall image of Portugal. Support services to investors range from the provision of tailor-made information and incentives negotiations to setting up a business and aftercare services. Additionally, AICEP organises visits to Portugal for potential investors. The agency designates a Key Account Manager for large companies with an annual turnover of EUR 75 million or investment projects valued over EUR 25 million. The Key Account Manager is the main liaison between local businesses and is also responsible for identifying companies with export potential, as well as monitoring and supporting large companies that are already involved in exporting to developed foreign markets.

AICEP strategically applies a support mechanism focused on stimulating investments for projects that are large or in areas importance for the national economy. The projects are prioritised and classified as Projects of National Interest (PIN) and Projects of National Strategic Importance (PIN +). With this mechanism, AICEP can respond quickly and ensure a smooth and speedy set up of investment projects that will benefit Portugal the most.

1. Relationship with regions

AICEP offers the Global Find service that helps identify the most optimal location for foreign businesses, particularly industrial and logistics companies. Global Find is based on the Geographic Information Systems platform (GIS) and selects suitable locations based on client requirements given by the pre-defined infrastructure, demographic and socio-economic criteria.

Information is gathered by local councils, business entities and other entities and then uploaded to the Global Find system (http://www.globalparques.pt/en/global-services/global-find).

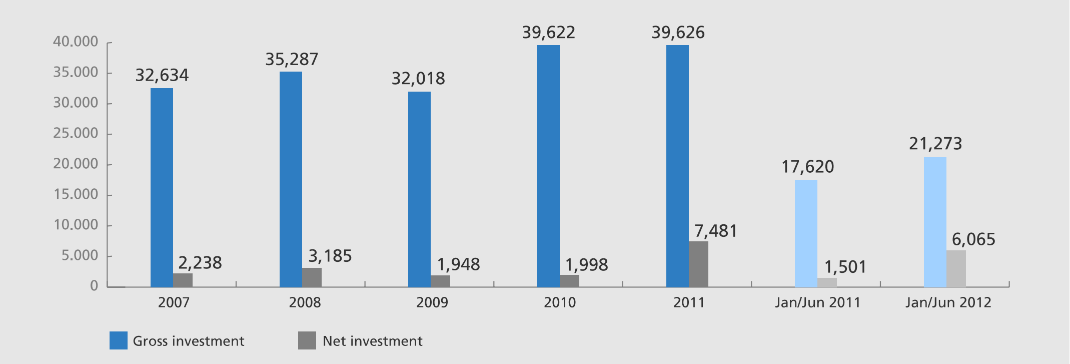
2. Level of autonomy

AICEP is a Government business entity created under the Decree-Law No. 245/2007 of June 25th. AICEP's activities are in line with national policy relevant to investment and trade.

3. Maturity of market

Portugal's investment climate is favourable due to its reasonable labour costs, skilled workforce and low political risk. However, the financial crisis severely impacted the Portuguese economy leading to low economic growth and a high level of external and public debt. As a result of the poor economic conditions, the economy experienced a decline to -1.6 percent in economic activity and a continued projected decline to -3 percent in 2012. A slow recovery is expected in 2013 mainly due to a boost in exports and a small rise in domestic demand.

Trends in Foreign Direct Investment in Portugal



Source: Banco de Portugal (August 2012) Unit: Million EUR

According to the chart above (sourced from the AICEP website), Portugal's economic performance has not affected its FDI flows. In fact, FDI has increased over the past five years with gross FDI flows totalling EUR 39.6 billion. Based on the estimated figures for the first half of 2012 are significantly higher than the figures from the first half of 2011, which means that FDI is expected to continue to rise.

The importance of the services sector is growing and as of recently comprises an important part of the Portuguese economy, generating 64.5 percent of the Gross Value Added (GVA). The manufacturing sector is also valuable as it shifts from traditional industries to high-tech industries, namely in the automotive, electronics, energy, pharmaceuticals and new technologies sectors.

4. Level of sectoral focus

Portugal Global promotes inward investment to the following sectors:

- Automotive
- ICT
- Plastic molds
- Wine
- Renewable and clean energy
- Shared service centres
- Cork
- Aerospace
- Biotechnology
- Eco-innovation

Wholesale and retail trade attracted the highest percentage of FDI followed by financial and insurance activities and manufacturing; comprising 70 percent of the total gross GDP.

5. Resource allocation to investment promotion

Information not available.

Romania Trade and Invest

Romania Trade and Invest is tasked with promoting trade and attracting FDI to Romania. The Agency was formed as a result of a merger in 2009 between the trade promotion agency and agency for foreign investment. The Agency increases local enterprises' export capacity through the organisation of seminars and forums, and promotes business and investment opportunities through their weekly Business Journal publication. Technical assistance to foreign investors ranges from location advice and the organisation of site visits to the provision of information on current legislation.

1. Relationship with regions

Romania Trade and Invest's regional offices in Iasi, Timis, Bihor and Constanta assist with responding to informational requests and technical assistance. The Agency's website provides a map of industrial parks and other zones in the regions, but does not promote one region over another, nor does it distinguish the variation in regional characteristics.

2. Level of autonomy

Romania Trade and Invest closely collaborates with the Government of Romania, Ministry of Public Finance and the Ministry of Economy, Commerce and Business Environment.

3. Maturity of market

Romania is ranked as the 7th largest market in the EU with over 21 million inhabitants. Romania has taken great strides in the reducing fiscal and administrative burdens and increasing support for private investments and job creation. Romania's economy showed signs of recovery in 2011 as GDP growth reached 2.5 percent. Romania also bounced back to the "investment grade" category in 2011, a notable achievement as other European countries were downgraded. Despite positive signs of economic growth, FDI flows to Romania have steeply declined from EUR 9.5 million in 2008 to less than EUR 2 million in 2011.

4. Level of sectoral focus

Unlike other IPA websites, Romania Trade and Invest does not provide information on key sectors for investment. However, the agency boasts an abundance of natural resources such as fertile land for agriculture, oil and gas, as well as a high potential for tourism. Romania Trade and Invest also offers investment incentives energy and green energy sectors.

5. Resource allocation to investment promotion

In 2009-2011, 20 large investment projects were approved by state aid valued at EUR 229 million, which created over 4400 new jobs. The state aid schemes for investment projects in 2012 are allocated a budget of EUR 850 million by the Romania Government.

Scottish Development International

Scottish Development International (SDI) aims to enhance inward FDI and increase the internationalisation of Scottish companies through trade or outward FDI i.e., joint ventures or foreign acquisitions. SDI's services are focused on sales and marketing to attract investments and boost Scottish companies participation in international activities. In terms of inward investment support, SDI provides investors with all the information and services necessary to invest, relocate, expand or partner with Scotland, along with comprehensive aftercare services.

SDI is aware of the many challenges that Scotland is faced with to compete as a top business location in this increasingly globalised economy. Its main strategy to overcome these challenges involves: (1) placing emphasis on the key sectors with high growth potential, such as renewable energy; (2) stimulating Scottish companies' interest in internationalising through collaborating with foreign firms; (3) establishing deeper relationships with globally competitive and high-value enterprises; (4) focusing on sectoral opportunities in emerging markets.

SDI has received positive customer feedback on the delivery of beneficial products and services including practical support, expertise, and access to information and business networks. The agency has also received international recognition from the World Bank ranking 6th out of 210 Inward Investment Agencies in 2009 and 8th out of 142 in the Financial Times fDi awards.

1. Relationship with regions

Scotland has a diverse economy and each of the regions holds comparative advantages enabling opportunities for investment. SDI promotes the attractive features of each region. A number of Scotland's regions are popular tourist destinations including central Scotland, Edinburgh and Inverness, as well as the Highlands and Islands. Many of electronics and software multinationals are located in Central Scotland, while Dundee serves as a digital media hub and is one of the best cities for life sciences research. Aberdeen and the North East region provide investment opportunities in oil and gas production.

2. Level of autonomy

SDI is a joint venture between the Scottish Government, Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE). It was formed through the merger of Scottish Trade International and Locate in Scotland in 2001. It is the leading body in trade and investment and its activities are of great importance to the Scottish Government's Economic Recovery Plan. SDI is a partner organisation of UK Trade and Invest (UKTI) and regularly collaborates with public and private sector partners to realise international opportunities.

3. Maturity of market

Scotland's economy is strong and diverse with and an investor-friendly environment inclusive of grants and tax credits, flexible labour regulations, property costs savings, skilled and motivated workforces and a Government committed to economic growth. Synergies between the academic sector, Government and industry have helped to develop Scotland's R&D capabilities and foster innovation. Scotland was recognised as the leading country in job creation through FDI out of all the countries in Europe. In 2011, according to Ernst and Young's attractiveness survey, Scotland's FDI projects increased 35 percent with 69 projects creating more than 4,000 new jobs.

4. Level of sectoral focus

Scotland boasts strengths are in advanced manufacturing, especially photonics, imaging systems and sensors. High potential lies in developing Scotland's renewable energy sector due to Scotland's natural, technical and research assets. SDI promotes Scotland's expertise in the following sectors:

- Aerospace
- Business Processing Operations (BPO)
- Chemicals
- Creative industries – Gaming and animation, film and broadcasting, publishing
- Education
- Electronic technologies
- Energy
- Financial services
- Food and drink
- Life sciences
- Textiles
- Tourism

Other sectors with growth potential include: Defense and Marine, Forest Industries, Healthcare and Construction

5. Resource allocation to investment promotion

The resources for SDI vary depending on the opportunities that arise throughout the year. For example, the joint venture partners (SE, HIE and SG) will combine resources necessary for major inward investment projects. A substantial amount of resources for investment promotion are provided by partners, such as the main investment grant scheme, Regional Selective Assistance (RSA) is delivered through SE.

The total annual operating budget is EUR 29 million.

UK Trade and Invest

UK Trade and Invest (UKTI) provides advice to UK businesses in field of international trade and supports foreign businesses seeking to invest or locate to the UK. UKTI sets out clear five-year strategies in order to achieve its goals of increasing local competitiveness and attracting high-quality FDI while promoting the as the top business market in international markets. The period 2010-2011 marked UKTI's last year of the "Prosperity in a Changing World" strategy. UKTI exceeded the goals it set for the year in the areas of maximizing FDI, increasing UK business performance and increasing R&D activity. Three-fourths of the agency's customers were satisfied with the agency's performance. UKTI also received the Best Trade Promotion Organisation (TPO) from a Developed Country in 2010, which highlighted the agency's success in helping SMEs internationalise.

The new strategy, "Britain Open for Business", is a fresh approach to stimulate growth through exports and inward investment. Compared to the old strategy defined in 2007, the new strategy places more emphasis on the export growth of SMEs and support for larger investment projects, but continues to focus on intensifying R&D activities and attracting high-value investments. Specifically, the trade objectives for 2012 and onwards involve the provision of new services to encourage innovative and high-growth SMEs to export, particularly to emerging markets. UKTI also plans to support large companies in obtaining projects valued at EUR 300 million or more with the goal of bringing high-value opportunities to the UK. In terms of attracting more FDI for 2012 and onwards, UKTI aims to create up to 750 FDI projects per year with a continued focus on R&D intensive projects that will enable productivity spillovers; bringing valuable knowledge and technologies to the local market. UKTI will target institutional investors to win large-scale infrastructure and regeneration projects and involve Ministers in relationship building with investors and exporters to ensure access to the Government's resources and expertise.

UKTI's operations span 162 locations in 96 countries, which account for 98 percent of the world's GDP.

1. Relationship with regions

An online interactive map presents detailed statistics on national data and FDI flows per region (http://www.ukti.gov.uk/investintheuk/investorsmap.html). The data per region is broken down into sectors and sub-sectors, business activities, as well as general economic data on unemployment, population and economic activity.

Regional Development Agencies (RDAs) were abolished in March 2012. The responsibility of economic development within the regions will be taken over by local enterprise partnerships (LEPs), which are smaller-scale partnerships between local authorities and businesses. Collaboration between UKTI, BIS and the LEPs will be important to maximise the benefits of FDI.

2. Level of autonomy

UKTI is a Government agency linked to Department Business, Innovation and Skills (BIS) and the Foreign & Commonwealth Office (FCO), and is therefore highly integrated in the UK's national policy. UKTI has its own objectives, collaborates with all parts of the Government and participates in activities related to BIS and FCO's objectives. FCO and BIS provide UKTI's staff and assets. The "Britain Open for Business" strategy defines the Government's role in providing support to inward investors and exporters, which is agreed upon by the Ministers.

3. Maturity of market

The UK is a world-renowned business location as acknowledged by Ernst & Young's European Attractiveness Survey 2010, naming the UK as the top European recipient of inward investment projects, and by the World Bank's Doing Business 2011 Report, which selected the UK as the best place to do business out of the EU and G8 member states.
The UK has maintained a steady GDP growth rate (with the exception of a contraction in 2009), which has continually outpaced or matched the growth rate of the EU. The UK has a strong record of attracting FDI due to its international and business friendly environment with one of the lowest main corporate tax rates in the EU, substantial tax allowances and the largest number of double taxation treaties in the world. According to UNCTAD, the UK had the third highest level of FDI stock in 2009 equalling nearly EUR 900 billion.

Setting up and operating a new business is easy for local and foreign businesses alike. The UK business costs environment is very competitive and the labour market is one of the most flexible markets in the world.

4. Level of sectoral focus

UKTI promotes the UK as an attractive location for an extensive number of sectors. Its website provides comprehensive information on the exhaustive list of sectors stated below:

- **Advanced materials** – composites, nanomaterial's, ceramics, alloys and steel
- **Aerospace** – aircraft systems, metrology software
- **Automotive** – low carbon and alternative fuel solutions
- **Business services** – legal, management, consulting, accountancy, recruitment
- **Communications** – mobile devices, infrastructure and network security and Internet services
- **Creative and media** – games and mobile content
- **Electronics** – semiconductors, consumer electronics, sensors, power electronics and energy efficient lighting and displays
- **Energy networks** – smart energy systems and heavy electrical connection
- **Marine energy**
- **Nuclear energy**
- **Wind power**
- **Oil and gas**
- **Financial services**
- **Food and beverage**
- **ICT** – software and IT, the cyber security market, cloud services, data centres and mobile applications

- **Life sciences** – drug discovery, healthcare services, medical technologies, pharmaceuticals
- **Space technology** – satellite communications and space exploration
- **Waste management**
- **Other sectors** – retail sector, leisure and tourism, education and training

The UK is also the number one European headquarters location. In 2010, the UK was the headquarters to 469 corporations, compared to 86 in Germany, 78 in the Netherlands and 77 in France.

5. Resource allocation to investment promotion

In 2010-2011, UKTI allocated EUR 14.6 million to inward investment programs and EUR 16.9 million in grants for RDAs. Although the total budget for inward investment was cut by nearly 20 percent compared to the previous period, UKTI improved its performance in the number inward investment projects facilitated and number of jobs created and safeguarded; seven percent and 13 percent increase, respectively, as shown in the table below. This indicates that the average costs of inward investment projects have dropped over the past four years.

	2007-08	2008-09	2009-10	2010-11 (Provisional)
Number of inward investment decisions in which UKTI was significantly involved	549	600	759	810*
Number of new jobs created	14,274	10,678	32,557	15,808
Number of jobs safeguarded	9,824	18,600	14,661	37,764
Total New and Safeguarded Jobs	24, 098	29,278	47,218	53,572

*This information is based on details provided by companies at the time of their announcement to invest in the UK. The figures are based on the company's best estimate of jobs created/safeguarded by their investment in the first four years. The figures take no account of subsequent developments.

During the past five years, the amount of resources spent on attracting FDI is one-third of that spent on trade development. The grants to RDAs have consistently declined over the five-year period, whereas promotional expenditure increased during the crisis years from 2007 to early 2010 and then dropped 30 percent in 2010-11. The total amount of resources allocated to inward investment is planned to increase for 2011-12 with an almost equal amount of funds dedicated to the delivery of FDI and investment promotion activities.

	2006-07 Outturn £m	2007-08 Outturn £m	2008-09 Outturn £m	2009-10 Outturn £m	2010-11 Outturn £m	2011-12 Plans £m
Trade development which includes:	63.4	57.6	58.9	62.1	58.9	56.1
Inward investment which includes:	30.7	32.6	31.9	32.3	26.2	27.9
Grants to RDAs	17.2	17.2	16.8	16.4	14.0	–
Delivery of FDI	–	–	–	–	0.1	13.9
Promotional expenditure	13.5	15.4	15.1	15.9	12.1	14.0

Welsh Assembly Government

The Welsh Government took over the responsibility of investment promotion and facilitation when the Welsh Development Agency was abolished in 2006. Under the business tab of the Welsh Government website, one can find information on business support services, sectors and international offices, along with FDI case studies. The Government's business support services not only refers to services offered to Welsh companies seeking to export or internationalise but also refers to investor assistance in obtaining investment loans or grants, deciding on a business location or developing the skills of employees through the Workforce Development Program.

The business unit within the Government promotes Wales' pro-business environment by listing 10 reasons to invest in Wales and highlighting nine key sectors. The Welsh Government's performance and resources for promoting foreign investments is not evident based on the information available online. The Government website is http://www.wales.com/en/content/cms/English/Business/Business.aspx.

1. Relationship with regions

The Government provides a list of properties suitable for various sectors including business parks, such as St. Asaph Business Park in North Wales, and development sites such as ParcAberporth, St. Athan, SA1 in Swansea and Roath Basin in Cardiff Bay.

Enterprise zones are set up across Wales each with a focus on a specific sector, as shown below:
Cardiff - Financial and Professional Services sector
Anglesey - Energy sector
Deeside - Advanced Manufacturing sector
St Athan - Aerospace sector
Ebbw Vale - Advanced Manufacturing sector
Snowdonia - Energy and Environment and ICT sectors
Haven Waterway - Energy and Environment sector

The Government works closely with key stakeholders in each location with the goal of helping business create jobs and stimulate economic development.

2. Level of autonomy

The Government is now responsible for promoting foreign investments.

3. Maturity of market

Wales is a mature market boasting easy access to financial support, connection to main industry hubs in the UK, low cost property options and high-class industry-led research facilities. Welsh's main asset is its people with over 34,000 graduates each year and a government investing in developing the skills of its workforce. The Welsh Government offers a financial support package (ProAct which is now Skills Growth Wales) of an estimated EUR 56 million to fund training needs.

4. Level of sectoral focus

The business unit promotes Wales' competitive advantages in the following industries:

- Information and Communication Technologies (ICT)
- Financial and professional services
- Creative industries
- Energy and environment
- Advanced materials and manufacturing
- Life sciences
- Food and farming
- Construction
- Tourism

5. Resource allocation to investment promotion

Information not available.

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