



## CHAPTER 5: MEASURING IPIs' INVESTMENT- ATTRACTION ACTIVITIES

### Why Measure IPIs?

***Information provision is a cost-effective way for a country to address information failures and barriers to FDI***

IPIs' timely provision of information to potential investors is important—especially so for economies where information from other sources is scarce, where there is not a long track record of FDI, or where country or economy is viewed negatively. Unless positive information is readily available, foreign companies may not consider a location in the first place, or they may reject it prematurely. Addressing information failures is likely to be the most cost-effective way for an IPI to stimulate market interest and attract investment.

Virtually all countries now have a national government-mandated IPI—a government ministry, investment promotion agency, board of investment—that is responsible for promoting FDI and facilitating the investment process.

According to a recent study by Development Counsellors International (DCI), a U.S.-based consulting firm, potential investors are likely to look to the IPI for assistance in their site-selection

process.<sup>7</sup> The DCI study, based on the aggregate responses of 281 executives with direct site-selection responsibilities in U.S. companies with annual revenues of more than \$25 million, found that 65 percent of companies have worked closely with IPIs during past location decisions, and 64 percent of executives indicate a strong likelihood that they would use an IPI Web site in their next location search. Only 8 percent of companies would not contact an IPI during the site selection process. GIPB helps IPIs to increase their relevance during companies' location decisions: by assessing their information services. GIPB helps to measure countries' competitiveness in the complex world of investment promotion and create a framework for improving performance.

IPIs vary substantially across regions. Differences in historic background, mandate and competencies, staffing, and oversight seem to have an impact on ability to perform

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<sup>7</sup> Development Counsellors International (DCI). July 28, 2008. "A View from Corporate America: Winning Strategies in Economic Development Marketing"

investment promotion functions, and as GIPB 2009 evidences, in responding to investors' information needs. However, all IPIs by definition have the mandate to facilitate investment. Facilitation is the most basic activity in investment promotion. It underpins all other IPI activities such as policy advocacy, proactive promotion, aftercare, etc. Unless professional facilitation is in place it may not be credible for an IPI to engage in other investment promotion activities.

Most importantly, although IPI mandates, functions and structures may vary across the world, the needs for site location information by companies and their consultants does not vary. International investors expect at least basic international standards of service to be met. IPIs failing to meet those standards will be most likely those that will lose out in the race to win investment projects.

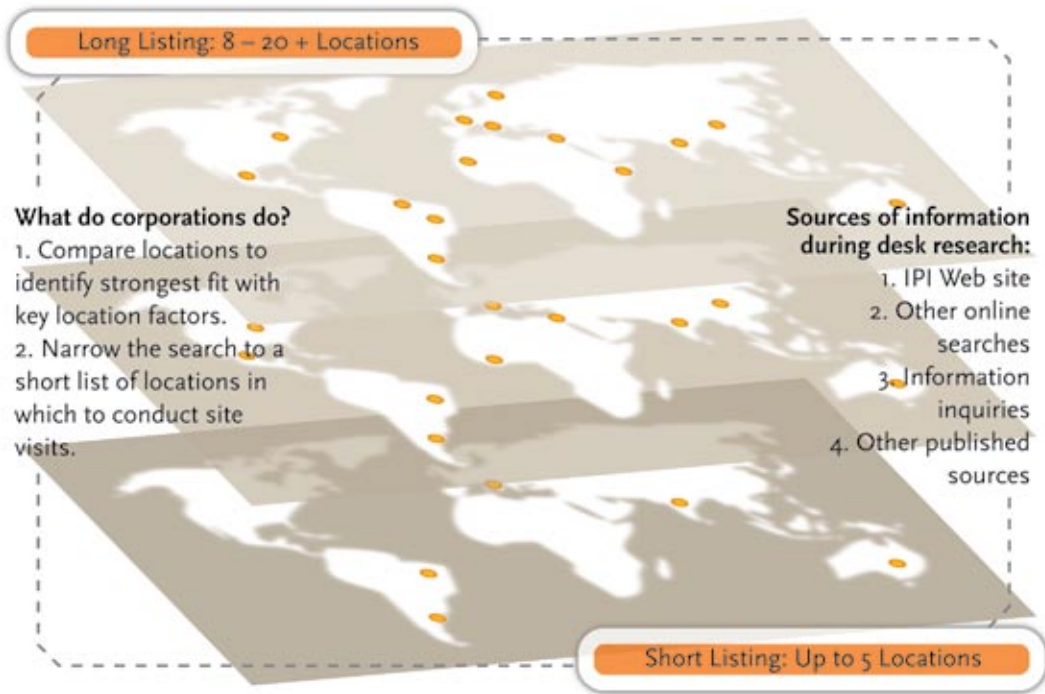
### Information Is Key to Site Selection

Companies seeking to expand their production or service capacity abroad typically undertake a careful site-assessment process that requires enormous amounts of information ranging from the more general at the initial stages of their desk research, to the more specific at the site visit stage (Figure 36). This process may be performed in-house but often is outsourced to site-selection consultants.

The desk research is called location "long listing" and usually involves collecting online information about a relatively large number of countries and locations (typically 8 to 20). Then, the company contacts the country's IPI to fill in information gaps.

Once they have collected this detailed information, investors employ "benchmarking" techniques to compare and evaluate the relative

Figure 36: The Site-Selection Process: From Desk to Field Research



advantages of investing in each location. In the context of investment promotion, benchmarking is the use of investment-related criteria to compare and contrast potential investment performance in competing locations.

If there is not enough information on a given location, the location will probably not make it to the next level of the selection process: “short list.” Thus, it is critical for countries to ensure that relevant, up-to-date, and good-quality information is available to potential investors at the desk research stage if the new investment is to be secured.

## GIPB’s Approach and the Foreign Company’s Site-Selection Process

GIPB 2009 measures country and sector information provision and foreign company relationship management, particularly at the early information-gathering stages of the location-screening process. Its focus is on information provision at this “long-listing” stage because if an IPI “loses” the investor at this stage, its location usually will not be reconsidered at later stages of the site-selection process. This makes these early interactions with potential investors critical to capturing investment projects.

GIPB mirrors the actions of a foreign company as it assesses its investment-location options at the long-listing stage: An international site-selection consultant uses the “mystery shopper” approach. In a carefully selected simulated investment project, the survey first assesses the quality and usefulness of the information provided in the IPI’s Web site. Then, the consultant contacts the IPI to request details to further inform the location decision-making, such as costs of land, availability and cost of labor, overall operating costs, infrastructure, quality of life, and legal framework.

A focus group with leading site-selection consultants, among them OCO Global, Jones Lang Lasalle, and DTZ, helped validate and improve the GIPB approach and the questionnaires used to evaluate IPI performance.

## What Does GIPB Tell Us About an IPI?

***In simulating the site selection, GIPB makes a comparative measure of the organizational effectiveness of each IPI, its management efficiency, and its understanding of the FDI marketplace, along with its knowledge of its local economy, and its key selling points and weaknesses***

GIPB assesses an IPI’s ability to provide information to prospective investors. However, the value of GIPB is enhanced by the fact that information provision depends on many other activities being undertaken and competencies being mastered. Therefore, GIPB provides an indirect assessment of the overall effectiveness of an IPI to perform its core mission of attracting productive FDI.

For example, the IPI Web site assessment gives an insight into:

- **The IPI’s investment strategy.** A strong Web site is evidence that the IPI has an investment strategy based on an understanding of the location’s comparative or competitive advantages, its core sectors for promotion and, via the selection of those sectors, whether the probability of demand for investment in those sectors has been assessed.
- **How well an IPI has considered the attributes of its location,** which is the “product” the IPI is selling. It is immediately obvious to a Web site user whether the IPI possesses a clear knowledge of its country.
- **The IPI’s perception of the market in which it operates.** Its choice of target sectors indicates whether or not the IPI has

researched the investment potential of given sectors.

- Finally, a Web site clearly shows **whether an IPI understands its customer**: *Best-practice* sites reveal that the IPI knows what will motivate the foreign company to invest in the location.

Similarly, an IPI's ability to successfully service an investment inquiry reveals:

- **Whether the IPI has undertaken extensive research into target sectors.** Effective IPIs already have prepared materials that answer questions frequently asked by investors, according to their sector of interest and the type of business activity they propose to undertake. The extent to which IPIs have prepared these materials is revealed by how quickly they respond to information requests and the quality of the information they provide.
- **Whether the IPI has a robust investment strategy.** An inability to provide detailed material about the sector that the IPI is promoting suggests that the IPI has not developed a robust investment strategy.
- **To what extent the IPI understands customer needs.** As with the Web site assessment, IPIs that cannot answer basic questions most likely have not researched their own market and sectors of interest. Conversely, an IPI that understands customers presents answers in a way that responds to the investor's key location drivers and provides evidence that the location meets or exceeds the investor's requirements.
- **Whether the IPI has the capacity to facilitate or implement a project.** Investors want reassurance that they will be able to

successfully implement a project in the IPI's country. An experienced IPI will be able to demonstrate that projects are viable through the use of case studies and testimonials but companies will also look for clues that the IPI itself has the connections in the marketplace that will ensure that their project will succeed.

## Who is GIPB Designed for?

- **Governments.** GIPB allows policymakers to assess the competitiveness of their promotional effort in attracting investment.
- **Investment promotion practitioners.** GIPB allows IPIs to monitor their performance over time against their strategic objectives and against best-practice standards of competitors. It highlights areas for improvement of an IPI's information services.
- **Technical assistance providers.** GIPB constitutes the standard reference for best practice in investor facilitation.
- **The World Bank Group.** GIPB allows for a quick and effective diagnostic of IPIs' capacity, and is a key tool to build a baseline to measure the impact of investment promotion projects over time.

GIPB constitutes a number of reports:

- **The Global Investment Promotion Benchmarking 2009 Summary Report.** An analysis of the global results, regional trends, and best-practice examples from top performers.
- **The Customized Report.** Each participating IPI receives a customized diagnostic of its performance with useful insights and specific recommendations for improvement. IPIs can request additional individual reports by sending an mail to [fias@ifc.org](mailto:fias@ifc.org)

- “Getting Information” Sub-Indicator of Investing Across Borders Project. GIPB results will feed into a new set of indicators which measure the ease of starting and operating a foreign-owned business in countries around the world.

## Methodological Note

### ***GIPB 2009 investigated the investment promotion capabilities of IPIs worldwide***

A total of 213 IPIs were assessed; 181 national IPIs (two of which are subnational IPIs from a country’s most populous city and, in the absence of a national IPI, are treated as national proxies) and 32 subnational IPIs.

Each IPI was assessed in two ways:

- First, IPI Web sites were evaluated across four themes to assess the extent to which they offer country and sector information, and are a business-support gateway for prospective foreign company investors;
- Second, IPI capacity to interact with and manage investment inquiries was evaluated. Because service consistency offers important insights into IPI capabilities, each IPI’s inquiry-handling abilities were assessed twice using a “mystery shopper” methodology. To ensure that we offered IPIs a balanced opportunity to demonstrate their capabilities, the first assessment related to a beverage project with a research and development component, and the second was a software development center inquiry.
- These scenarios are based on real project inquiries, one by a leading soft drink manufacturer and the other by a leading Internet and software development company. They represent two different sectors and types of activity that require different combinations of labor, property,

and other information relevant to potential investors.

- Both scenarios require the IPIs to perform in a similar manner, since the initial project briefs were delivered via e-mail and then followed up by telephone interaction. Each IPI was provided with an outline of the simulated companies, information on company strategy, and details of the proposed investment project. This was followed by a detailed outline of the information required, such as the background of the sector in the location, labor skills and availability, employment regulations, and potential sites.
- The methodology favored IPIs which responded to the initial e-mail, without prompting, within 48 hours. Where there was no follow-up to the initial e-mail, GIPB’s approach was to call the IPI at three different times on three different days to allow for any temporary staff shortages or system failures. This probably showed more determination than a regular potential inward investor would have. The calls were conducted in English.

See Appendix D for full scenarios.

### ***Dealing with languages other than English***

GIPB assessment of Web sites and inquiry-handling abilities was conducted in English. Many IPIs may have good reasons for not hosting an English-language version of their Web site. Some countries and regions may have taken an informed management decision not to provide English versions because they realize that for historical, cultural, or developmental reasons, they are unlikely to attract investors from English-speaking countries. Some IPIs might be able to attract English-speaking investors but their financial resources preclude

creating an English version of their Web site.

English is a dominant international business language and much FDI is currently from English-speaking nations. At the very least, contact information should be prominently located on the home page so that any company, regardless of language, can locate a telephone number or e-mail address.

Because some aspects of the Web site review are not language sensitive, sites were scored in those areas, regardless of the language of the Web site. Areas in which non-English-language Web sites were evaluated are the following:

- Web optimization and Internet accessibility
- Web site architecture
- Web site look and feel
- Contact information

In the case of the inquiry-handling assessment, non-English speaking IPIs that did not submit a response scored zero for that particular assessment.

#### ***Methodological variations on 2006 survey***

- The sample size increased from 125 IPIs in 2006 (96 nationals and 29 subnationals) to 213 in 2008 (181 nationals and 32 subnationals). Not all of those surveyed in 2006 were included in the GIPB 2009 report.
- Regional averages in the 2009 report are calculated only on the basis of the national IPIs. Subnational IPIs were not included in regional averages.
- In 2006, the top-five IPI were used as the benchmark. In GIPB 2009, because of the extended global sample, this group has been removed.

Where quoted in this report the 2006 scores have been standardized by applying the GIPB 2009 weightings at both the theme and subtheme levels, and removing any indexing that had been used in 2006. In addition, regional averages have been updated to use the 2009 regional classifications, and by removing subnational IPIs from those calculations.