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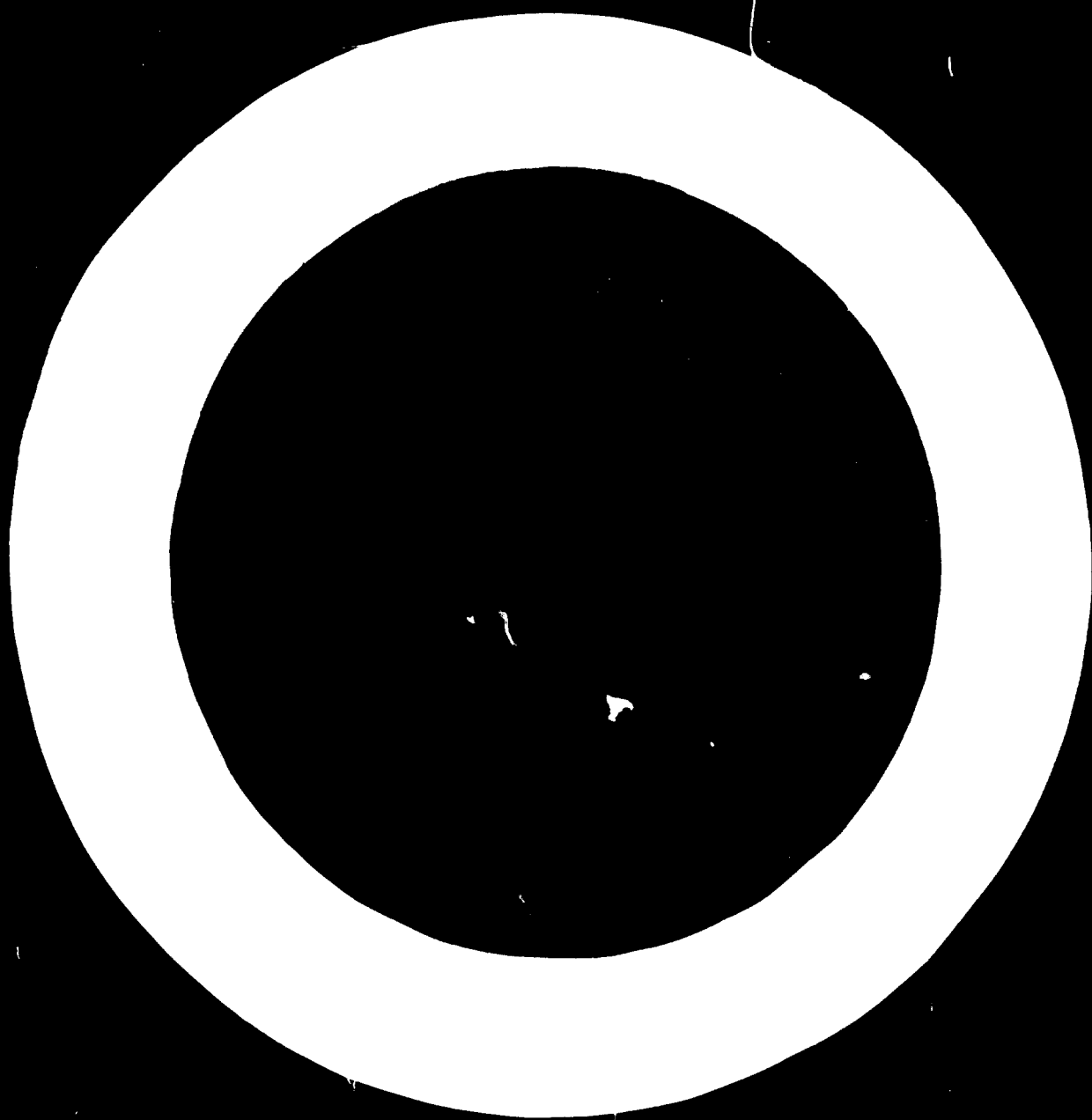
**Machinery and Techniques for Industrial  
Investment Promotion in Developing Countries**

**THE ORGANIZATION AND OPERATION OF AN INVESTMENT PROMOTION CENTRE:  
ISSUES AND ALTERNATIVES<sup>1/</sup>**

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# THE ORGANIZATION AND OPERATION OF AN INVESTMENT PROMOTION CENTRE

## Issues and Alternatives

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## Introduction

1. To accelerate the pace of industrialization in developing countries, the need to stimulate the inflow of external resources to supplement their own is generally recognized. These resources could be in the form of supply of financing or know-how or both.
2. The supply of external financing could be in the form of loan or equity investment. Equity investment could be portfolio or direct. Direct equity investment includes different forms of joint ventures between foreign and domestic capital.
3. Many developing countries have made systematic efforts to stimulate the flow of foreign equity investment and know-how into their industries. These efforts include the creation of climate conducive to investment, the setting up of a specialized machinery for the purpose and the development of various techniques of promoting investment.
4. The specialized machinery set up for the purpose is generally called investment promotion centre, or agency, or department. It is believed that such machinery can achieve substantial results in a relatively shorter time and at comparatively lower cost.
5. The purpose of this paper in the context of above clarifications, is to raise issues that developing countries face in the organization and operation of investment promotion centres, and to list the various alternatives which may occur regarding each of these issues.
6. The aim of raising the issues is to provoke discussions at this meeting and to elicit their opinions and experiences in this respect.  
The issues pertain to:
  - (a) the pre-requisite conditions for an effective and efficient National Promotional Effort;
  - (b) the organization of centres on a single nation or a multi-nation basis;
  - (c) objectives and functions;
  - (d) organization;
  - (e) techniques used in the operation of an investment promotion centre.

I. The Pre-requisite conditions for an effective and efficient National Promotional Effort

7. As a first pre-requisite, a country in question should have a national policy of welcoming foreign investment and a favourable investment climate established through the creation of an appropriate legal framework.
8. It should have a well-defined industrial investment programme, setting out the terms under which foreign investors can participate in the industrialization programme of a particular country.
9. It should have clear identification of the types of industries in which foreign investment is preferred.
10. It should also have clear identification of, and data about, the country's natural resources and industrial infrastructure, including the available labour force.
11. The above set of requirements should be implemented before any effective and efficient promotional effort is launched.

II. The Organization of centres on a single nation or a multi-nation basis

12. In a big majority of developing countries, investment promotion centres in existence have been for a single nation, dealing with all industries of that nation. However, it is the opinion of a number of people that national investment promotion centres are, relatively speaking, expensive and are beyond the means of smaller countries.
13. Therefore, it has been suggested that investment promotion centres should be set up for a group of nations. Such a question has been raised in Africa, and a scheme has been prepared by the UN Economic Commission for Africa.
14. The issue is whether it is feasible from a practical point of view to have an investment promotion centre serving more than one nation.



### III. Objectives and Functions

15. It is needless to add that as national goals and policies vary from country to country, so would the objectives and functions of national investment promotion centres. Even then each country contemplating the organization of an investment promotion centre has to face a number of questions.

16. A fundamental question arises as to the scope of a Centre's activities. Should an investment promotion centre engage in all activities from identification of investment opportunities to the implementation stage? Such a wide scope would include: (i) identification of investment opportunities; (ii) preparation of technical and economic feasibility studies; (iii) preparation of bankable project reports; (iv) "sale" of these reports to prospective investors.

17. Or should an investment promotion centre's activities be confined to promotion only. That means confining itself to "selling" bankable projects reports to prospective investors.

18. However, a number of functions are implicit in the very nature of an investment promotion centre.

Specifically they can be summarized as:

- (1) Creation of a reference library and collateral services relating to foreign investment, including:
  - (a) current data on production, trade, markets, labour, resources, utilities etc.
  - (b) economic, financial, social policies of the government.
  - (c) data on domestic industrial and banking facilities and institutions.
  - (d) laws and regulations bearing on foreign investment.
  - (e) information on firms operating in the country.
- (2) Surveys of current possibilities for foreign investment and brief case studies on feasibility of particular industries.

- (3) Advice to domestic businessmen on attracting foreign capital and the techniques for doing so, through:
  - (a) assistance in preparing prospectuses of their plans
  - (b) contacting potential foreign investors on their behalf
- (4) Assistance to potential foreign investors by:
  - (a) informing them about policies, programmes and current views pertaining to foreign investment
  - (b) arranging contacts for them with business and government
  - (c) acting on their behalf with government agencies
  - (d) clarifying and mediating differences in the investor's and government's approach to a particular project
  - (e) helping them obtain necessary permits and licences
- (5) Extensive publicity abroad regarding investment opportunities and general political and economic conditions in the country.
- (6) Approaches to particular business groups and businessmen abroad, with a view to getting them to invest in the country
- (7) Creation of a climate conducive to foreign investment by:
  - (a) calling the Government's attention to obstacles, hindering a flow of investment funds
  - (b) suggesting ways of simplifying procedures
- (8) Maintenance of close contact with government officials concerned with foreign investment.

19. This list of functions is by no means exhaustive but rather represents the generally accepted scope of activities for a national investment promotion centre.

#### IV. Organization

20. In devising a suitable organization for an investment promotion centre for a particular developing country, a number of organizational issues arise. These relate to (1) the relationship between an investment promotion centre and a national government; (2) the composition of policy-making bodies; (3) the personnel of the Centre; and (4) resources.

(1) The Relationship between Investment Promotion Centre and National Government

21. It is needless to add that the exact relationship would vary from country to country, depending on the political philosophy and national objectives of the country in question.

22. However, for the purposes of this discussion, four types of relationships can be envisaged. They are discussed below:

(i) Department of a National Government

23. An investment promotion centre can be just a department of a government like any other department.

24. Some people see a number of advantages in this form of organization. They are: (i) ready accessibility to the policy-making bodies of government, like Cabinet of Ministers, etc; (ii) rendering advice to the government quickly and directly, and (iii) the statements issued by such an investment promotion centre can be taken as authentic declarations of governmental decisions.

25. Other people see a number of disadvantages. They are: (i) that an investment promotion centre may suffer from government bureaucracy and red tape; (ii) foreign investors may be rather wary in dealing with a government department; (iii) the officials of an investment promotion centre may be rather chary of having free discussions as their statements may be printed as a commitment of government to foreign investors, and (iv) the officials may also not like to make any commitments without prior approval and clearance with higher levels.

(ii) Autonomous Governmental Body

26. An investment promotion centre can be an autonomous body, free from interference by governments in its day-to-day operations.

27. Some people are afraid that such a centre may be handicapped because it has to work within the general limits set by the Government, and its efficiency would depend on the extent of limits of its directions set by the Government. Perhaps this would be a good form of organization for a centre if it were given wide discretionary powers in its conduct.

(iii) Semi-Autonomous Body

28. An investment promotion centre can be a semi-autonomous body. This form of organization is a hybrid between a government department and an autonomous body. Of course, it would also work within the framework of policies set by national governments.

29. The advantages of this form of organization over others could be that (i) its officials could hold discussions and dialogue with foreign investors without having to get advance approval and clearance from national governments; and (2) a foreign investor may also find the atmosphere within the centre to be more congenial than that of a government department.

30. The effectiveness of such an investment promotion centre is directly related to the degree of confidence placed in it by a national government. Its officials should maintain a close liaison with governments and keep well informed on its thinking and policy.

(iv) Non-Governmental Body

31. An investment promotion centre can also be a completely non-governmental body. For instance, it can be set by chambers of commerce and other institutions in the private sector of a country.

32. In such a case, it would only become an institution ancillary to the existing institutions in the private sector. It would lack the degree of authority implicit in other forms of organization.

(2) The Composition of Policy-making Body

33. The composition of a policy-making body of an investment promotion centre plays an important part in inspiring confidence on the part of foreign investors, and in acquiring weight in influencing the policies and actions of a national government.

34. A policy-making body should be composed from a wide variety of economic interests. It should have representatives from: (i) different segments of industries; (ii) existing foreign ventures; (iii) financial institutions; and (iv) high-level government officials.

(3) The Personnel of a Centre

35. In selecting personnel to man an investment promotion centre, it should always be borne in mind that the centre is a business organization whose business is to "sell" to foreign investors the investment climate and other attractions in the country sponsoring it.

36. Thus, the chief executive of an investment promotion centre should have business experience or industrial background. Preferably he should come from the private sector of a country's economy, or at least, have had a close association with it during his career.

37. Academic economists usually are not ideal candidates for this position since they are not normally as business-minded as career business executives.

38. Similar considerations should be borne in mind in selecting other personnel.

(4) Resources

39. An investment promotion centre is mainly a service organization and, as such, has to offer most of its services free of charge.

40. Its resources are mainly derived from grants from national governments or from private institutions. In some cases, foreign aid programmes of capital-exporting countries could be used to finance a part of the expenses of an investment promotion centre, especially in the initial stages. This would apply especially to the foreign exchange cost.

V. The Office Abroad

41. Important considerations in creating and running an office of an investment promotion centre located abroad are: (i) the choice of suitable location abroad; and (ii) the relationship between Home Office and Foreign Office.

(i) The Choice of Suitable Location Abroad

42. An important question to be considered in the opening of foreign offices is their location. Such offices should be, of course, located in capital exporting countries which may be organized on a private-enterprise basis or centrally planned basis. However, the choice of a particular city to locate a centre's office should be carefully weighed. Generally speaking, such offices could be advantageously located in financial and industrial centre, rather than in national capitals.

(ii) The Relationship between Home Office and Foreign Office

43. It is important for an investment promotion centre to have continuous two-way communication between its Home Office and its Foreign Office or branch.

44. This could be carried out in a variety of ways. It could be done by daily call reports giving information on discussion with potential investors already held or about to be held. It may be advisable to have monthly reports to the Home Office on economic conditions in the capital-exporting country in which it is located.

VI. Promotional Techniques used by an Investment Promotion Centre

45. The two basic functions of an investment promotion centre are firstly to supply information to prospective investors, and secondly, to induce them to investment in the developing country concerned. For the purposes of analysis here the former may be called an information function and the other an operational function. Of course, there is a lot of overlapping between the two and in practice it may not be possible to differentiate clearly between the two.

46. A number of techniques have been developed by investment promotion centres to carry out these functions. They are briefly described here:

1. Techniques used in the performance of Information Function

47. These techniques can be described as: (i) issuance of brochures; (ii) identification of investment opportunities for foreign investors; (iii) publication of newsletters; (iv) newspaper advertisements and hiring of public relations consultants.

(1) Brochures

48. One of the techniques is to bring out a series of brochures giving authentic information on subjects which are of particular interest to foreign investors. Such brochures can deal with information regarding the investment promotion centre itself, giving its objectives and functions, names of its officers, telephone numbers, address of the offices, procedures to be followed, etc. A folder giving in a nutshell the basic facts and figures of the domestic economy which would be of particular interest to a foreign investor would be most welcome. It is desirable to publish in the form of brochures, information regarding general facilities given to foreign investors with respect to protection of his capital, repatriation of profits, laws concerning the incorporation of companies, the relevant tax formalities, details of taxation rates, etc.

(ii) Identification of Investment Opportunities for Foreign Investors

49. To be efficient in its work, it is also necessary that the investment promotion centre indicates in advance (without waiting for any particular foreign investor to appear on the scene) specific investment areas available to foreign investors.

50. Bringing out "fact sheets" highlighting investment opportunities available to a foreign investor in specific industrial fields is also sometimes very conducive to generating interest in some foreign investors who have specialized in those fields. Such "fact sheets" should briefly describe the current demand for the products in that particular field of industry, the expected development of demand in the country in that field in the near future, targets, if any, fixed for the same by the government, or any statutory authority concerned with the development of capacity in that particular industrial field, value of current imports of such products into the domestic economy and the specific scope available in such fields

for foreign know-how and capital. After a particular foreign investor has shown his serious interest after studying such fact sheets, the investment promotion centre can also assist him in drawing up detailed project reports. Close consultations between an investment promotion centre and the foreign investor concerned are essential so that the project report is tailor-made to the needs of the foreign investor.

(iii) Publication of Newsletters

51. Printing periodical newsletters, presenting factual information on the current developments in the domestic economy is a very useful activity. Such newsletters help prospective entrepreneurs by providing them with up-to-date information. It will also become simpler and speedier to explain recent government policies and procedures relative to industrial development in general and foreign investment in particular. Such newsletters should also have a feature presenting case studies of joint ventures which are already successfully operating in the country so that they serve as advertisements for attracting more foreign investment. Such joint venture stories help new and intending foreign investors to learn of the experience of existing foreign investors who have actually set up, and run plants in the developing country.

52. It is vital that a comprehensive mailing list be built up for such newsletters so that the effort which goes into its publishing is not wasted. While mailing such newsletters, it is useful to address them, as far as possible, by name to the executive concerned with foreign investment in the foreign corporation.

(iv) Newspaper Advertisements and Hiring of Public Relations Consultants

53. An investment promotion centre which has the necessary financial means can also consider advertisements in newspapers, and hiring of public relations consultants. But such methods are rather expensive. It is important for an investment promotion centre to have close contacts with important newspapers and professional periodicals so that they can be assisted in bringing out



articles of topical interest to foreign investors. Publishing special supplements, especially in important foreign financial papers, is also very useful.

## 2. Techniques used in performing Operational Functions

54. The techniques used for carrying out this function can be (i) locating a prospective foreign investor; (ii) sponsoring of Ad-Hoc meetings; (iii) establishment of Advisory Committees abroad to help foreign branches; and (iv) sponsoring tours of foreigners to home country.

### (i) Locating a prospective foreign investor

55. The task of matching a project proposal with the interest of the right kind of foreign investor is one of the most important functions of an investment promotion centre. It is also a great test of its efficiency because a great deal of time and effort could be wasted in fruitless correspondence and search.

56. Since conditions vary from country to country, and the requirements of individual projects are different in each case, no predetermined rules are useful, but in all cases the approach would involve two basic steps:

1. The identification of corporations engaged in the industry in question;
2. the isolation, from among the larger group, of a small number of corporations who would be interested and willing to provide the assistance required.

57. We can only refer to the sources from which the information on the above points can be obtained. They are: (i) reference directories; (ii) manufacturers' and trade associations; (iii) banks; (iv) government agencies of capital exporting countries; (v) consultants; and (vi) advertisements.

### (ii) Sponsoring of Ad-Hoc Meetings

58. Holding of briefing sessions for businessmen in capital exporting countries is also a good method of publicity. Such sessions where

foreign investors can meet and discuss their problems with officials of the investment promotion centre help to present a clear picture to foreign investors. Organization of such discussions in capital exporting countries has a great advantage that foreign private investors can discuss their problems in their own country with responsible and well-informed officials of the investment promotion centre. Such discussions can generally cover a very wide area including the market for various products, taxation policy of the government, scope for foreign private sector investment, extent and nature of price controls, if any, national government's approach to foreign collaboration agreements, various sites available for industrial development, local staffing and managerial problems, if any, procedural formalities for setting up industrial enterprises in the country, etc. These discussions facilitate a understanding of conditions in a developing country by foreign investors.

(iii) Establishment of Advisory Committees abroad to help foreign branches

59. Some investment promotion centres have resorted to the appointment of local advisory committees in important industrial centres of the capital exporting country in which they are located to further their aims. For these committees, groups of prominent businessmen, bankers, investment houses, economists and industrialists in several key industrial concentrations are invited to assist the investment promotion centre in a purely honorary capacity, by providing valuable guidance and advice towards a better implementation of the investment promotion centre's objectives. These committees meet periodically to hear visiting dignitaries from the home country, and in turn to offer suggestions of their own. They function as a source of informed opinion to foreign businessmen on investment climate in the developing country concerned, thus serving as a link between an investment promotion centre and potential foreign investors. The value of their advice lies in the free expression of their views on the policies and procedures obtaining in the developing country concerned. Frequently they build up favourable opinion in the capital exporting country for the developing country more effectively than its investment promotion centre.

(iv) Sponsoring Tours of Foreigners to the Home Country

60. Another useful device is to sponsor visits to the developing country of delegations of businessmen, industrialists, bankers, etc. from abroad. The principal objective of such a programme is to enable foreign investors to make an on-the-spot study of investment climate in the country. Personal contacts with local business interests will also become possible through such visits for establishing joint ventures. The programme can also aim at bringing members of such delegations into close contact with the appropriate government officials so that they can have better and clearer understanding of government policies and procedures regarding foreign investment. In sponsoring such business delegations, it is essential to ensure that members selected are fully representative of all industrial interests in the country from which they are drawn. It is useful to give representation to Chambers of Commerce and financial institutions and sometimes even to the government officials from capital exporting countries dealing with aid policies.





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