Programs in Industrial Countries to Promote Foreign Direct Investment in Developing Countries

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a joint facility of
International Finance Corporation (IFC)
Multilateral Investment Guarantee Agency (MIGA)

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Introduction

For many years industrial countries have encouraged domestic firms to make direct investments in developing countries. The methods used have included a broad range of policy measures, such as fiscal incentives, investment insurance, financing, and bilateral investment treaties designed to increase the return or reduce the risk of these investments. In addition, industrial countries have supported a range of promotion programs operated by both bilateral and multilateral institutions to directly promote direct investment in developing countries. These programs provide both services to help investors develop and structure their investments and information about investment opportunities.

These direct promotion programs, some of which have existed for several decades, provide the focus of this paper. The programs are based on two suppositions: first, that direct private investment from industrial to developing countries will make an important contribution to the economic development of host countries; and second, that adequate flows of such investment will not occur without some government assistance. Thus, the investment promotion programs, like the policy measures mentioned above, are predicated on an assumption of market failure and are designed to overcome these failures and facilitate investments beneficial to host countries (that would not be made without some government assistance).

Support by industrial country governments for these promotion programs has sometimes been ambiguous; many governments in fact, have faced serious opposition to these programs from domestic interest groups that fear foreign investment will export jobs and technology and thus weaken the home economy. Because of these fears investment promotion programs have received less political support than export promotion programs.

Many developing countries also have been ambivalent about encouraging inflows of foreign direct investment (FDI) and particularly during the 1970s, sought other ways to obtain private foreign capital, technology, and management skills. Some developing countries, in fact, put up significant impediments to direct investments.

These attitudes are now changing on both sides. Developing countries are becoming more interested in increasing the inflow of FDI and are taking steps to encourage new flows, including the establishment of their own investment promotion programs. Industrial countries recognize the increasing importance of international business and the need for domestic firms to be competitive in the international economy. Thus, many

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1. Direct investment refers to investment by a firm or individual in an enterprise in another country, where the investor has a voice in the management of that enterprise.
2. Most programs support other forms of industrial cooperation, such as technology transfer, in addition to foreign investment. This paper, however, focuses on promotion of foreign direct investment.
industrial countries are looking with increased favor on foreign direct investment, including investment in developing countries. A number of countries are taking steps to improve their investment promotion programs.

In this changing environment, it seems timely to examine the investment promotion programs of industrial countries to determine whether they can become more effective at promoting FDI in developing countries. To that end, the paper surveys the existing bilateral programs of fourteen member countries of the Organization for Economic Cooperation and Development (OECD) and the programs of several multilateral institutions. This survey is based on visits to relevant agencies by staff and consultants of the Foreign Investment Advisory Service (FIAS), a joint facility of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). Chapter 2 gives an overview of the organizations involved in investment promotion and outlines the trends in detailed descriptions in Chapter 3 of several of the most important bilateral and multilateral investment promotion programs. The underlying principles and practices of both bilateral and multilateral programs (including their value, content, and organization) are evaluated in Chapter 4 in light of the changing environment and also of what is now known about effective investment promotion techniques. As might be expected, changes in both content and organization of present programs would improve their effectiveness; some of these changes are outlined in Chapter 5.

Perhaps more important than these specific changes are opportunities that are being missed to link the programs of industrialized countries with new investment promotion programs being initiated by many developing countries. The emergence of these programs reflects the new importance that developing countries are giving to foreign direct investment. These fledgling promotional efforts need the help that some of the industrial country promotion programs can provide; the promotional efforts of the developing countries, on the other hand, can provide a focus that will help improve the productivity and relevance of industrial country programs. By working together, both can benefit, although some institutional innovation will be needed to facilitate such cooperation.

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3 See annex for the countries and multilateral agencies surveyed.
Overview of investment promotion programs

Bilateral and multilateral investment promotion programs supported by industrial countries are designed to help potential investors from those countries learn about investment opportunities in developing countries, find host country partners, and develop projects after opportunities have been identified. To facilitate project identification and development, these programs provide investors with information, subsidize some part of their own costs to obtain information, and help cover project development costs.

The programs seek to reduce market imperfections that limit the extent to which entrepreneurs of industrial countries take advantage of viable investment opportunities in developing countries. Such programs would not be needed if information flowed freely and if perceptions of risk in international investment fully reflected actual conditions. In practice, however, international markets are still sharply divided by national boundaries, despite the continuing spread of international business. In a world where market imperfections may inhibit the flow of capital, promotional programs will provide mutual benefits to both home and host countries by facilitating profitable and viable investments that otherwise would not be made.

All fourteen industrial countries surveyed for this study have some form of investment promotion program, but substantial differences exist among the countries with respect to the extent of the programs, their motivation, and the characteristics of firms they are designed to assist. A few governments, including the United Kingdom and Switzerland, basically reject the rationale for promotional programs, believing instead that private businesses should be responsible for finding their own investment opportunities. Swiss promotion programs are modest and confined mainly to funding some multilateral initiatives. The U.K. government is also unambiguous about relying on market forces and private initiative for investment promotion in developing countries. Consequently, most U.K. programs to promote private direct investment in developing countries have been curtailed or eliminated in recent years.

Promotional programs also differ among industrial countries in the extent to which they emphasize development as opposed to commercial motivations for supporting foreign investment. All of the programs aim to promote development in the recipient countries by encouraging productive private investment; however, some of the programs also try to promote the commercial interests of the sponsoring country by confining assistance to those firms whose investments would generate benefits for the home country. For example, to qualify for assistance from the Canadian International Development Agency (CIDA), a project should include such elements as sales of Canadian capital goods, professional services, expansion or protection of foreign markets, and job creation or preservation. Some U.S. programs also contain similar requirements.
Commercial interests also can be advanced through the selection of countries where the promotional programs are available. Some industrial countries target their promotion to developing countries where they have strong traditional commercial links or where they have a strong interest in developing such ties. This clearly is the case with promotional activities of the Japan International Development Organization (JAIDO). French programs have traditionally focused on African countries, where France has historical links; recently France has begun to develop a series of promotional programs in Asia, Latin America, and the Middle East as a result of pressure from the French business community, which is seeking new opportunities in these regions.

Other countries have emphasized the developmental motivation by generally limiting promotional programs to the least-developed countries. This is the case with U.S. programs, although it may be argued that a number of these programs also target countries (such as those in the Caribbean) where the U.S. has strong political interests. The Swedish program operated by the Fund for Industrial Cooperation with Developing Countries (Swedfund) and the Danish program by the Industrialization Fund for Developing Countries (IFU) clearly emphasize the least-developed countries, Africa in particular.

Most investment promotion programs of industrial countries focus on promoting investment by small and medium enterprises (SMEs) in joint ventures with local firms in the developing countries. It is a common assumption that SMEs constitute a more adequate and flexible vehicle to transfer appropriate technology to developing countries than do large multinational corporations (MNCs). Moreover, it is also felt that large multinational enterprises, with their great resources, are less in need of government assistance than are SMEs: that is, SMEs are thought to suffer more than their larger counterparts from the market imperfections that provide the rationale for the promotional programs. SMEs in industrial countries frequently face considerable difficulties in developing international business linkages, especially within developing countries. As Dr. Braun of the German Investment and Development Company (DEG) has noted, lack of information, unfamiliarity with investment conditions in developing countries, or even lack of vision about the advantages of setting up operations abroad are major stumbling blocks that SMEs must overcome.

Involving SMEs in the industrial cooperation process was one of the main considerations for the creation of the DEG, especially as German SMEs constitute the largest share of German industry. German promotional programs operated by the Ministry of Economic Cooperation, the DEG, the German Agency for Technical Cooperation (GTZ), and the Kreditanstalt für Wiederaufbau (KfW) emphasize support to SMEs. In

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4 Different definitions of small and medium enterprises apply throughout the world. In Western Europe, the term SME is often applied to family-owned firms. The Overseas Private Investment Corporation (OPIC) definition in 1988 was an industrial company with sales of less than $140 million or a nonindustrial company with shareholder equity of less than $48 million.

addition, German programs provide substantial concessional financial support to SMEs that want to invest in developing countries.

The Belgian Corporation for International Investment (SBI), Belgium's international development institution, provides priority information and advisory services to SMEs, with Belgian or LDC partners. The French promotional system, also, focuses on promoting investment by SMEs in joint ventures. The Italian promotion program, the Union of Chambers of Commerce and Industry (Mondimpresa), is likewise based on the idea that whereas general information services may be needed by nearly any sized company, project preparation assistance is especially critical for small and medium companies, especially since Italy lacks integrated services to support SME investment needs in developing countries.6

The enthusiasm for SMEs and joint ventures is not universally shared; for example, in the early 1960s when the German DEG was created, some considered the concepts of partnership and support for SMEs to be unrealistic.7 Certain promotional and financial services, especially those of international development institutions, the U.K. Commonwealth Development Corporation (CDC), or the Canadian International Development Agency's Industrial Cooperation Program (CIDA-INC), seem more open to providing support to large companies. Although CIDA-INC in Canada does not limit its assistance to SMEs, it recognizes that "identifying and defining opportunities for investment is outside the realm of experience of most small- and medium-scale Canadian companies and involves a larger degree of risk."8

Japanese promotional agencies also will support larger firms. These agencies assume that as long as large trading and manufacturing firms are successful in their offshore investment activities, the vertical industrial organization structure in Japan will inevitably open up opportunities for SMEs in developing countries through subcontracting arrangements and through other "trickle-down" mechanisms. Thus, in Japan substantial time and resources are allocated to the promotion of large firm investments in developing countries.

A recent internal study conducted by the French Ministry of Cooperation questions the emphasis that France gives to promoting French SME investment in Sub-Saharan Africa through joint ventures with local African firms.9 The study recognizes the need for SME support in Africa but concludes that the emphasis given by some countries to the concept of "partnership" (that is, joint ventures) and to SME promotion has been unrealistic and has shown disappointing results.

Thus, the focus and objectives of industrial country investment promotion programs are being reexamined. This reexamination extends from the underlying principles to the instruments used in the programs. A description and comparison of the main promotional instruments and the organizations that administer them follows.

A. Investment promotion organizations

Overview of organizations involved in investment promotion

In industrialized countries, investment promotion activities are carried out by many different types of organizations, including ministries of foreign affairs and development cooperation agencies, development finance institutions (DFIs), and private or semiprivate organizations, such as chambers of commerce and trade associations. In most countries, investment promotion activities tend to be relatively dispersed, although Canada’s Industrial Cooperation Program is operated by a single agency within CIDA, which administers the foreign aid program.

Government programs specifically designed for foreign investment promotion are carried out mainly by development agencies and DFIs, generally as part of overseas development assistance programs. Other official agencies such as technical cooperation agencies, trade agencies, and industry ministries may also be involved in some investment promotion, but it is generally as an offshoot of their broader mandates. Chambers of commerce and trade associations may, through their networking activities, play a catalytic role in encouraging investment. However, their focus is primarily business oriented, and only a few associations of chambers of commerce such as the Federal Economic Chamber (BWK in Austria) have a specific mandate from the government to operate an investment promotion program.

Among the countries surveyed, there are obviously major differences in institutional and administrative structures. There is also a significant degree of fluidity in ministerial responsibilities (for example, a ministry of cooperation may be merged with the ministry of foreign affairs to be reestablished a few years later as a separate entity) in addition to the fluidity of some of the investment promotion budgets in most countries. There also is a great diversity in legal status among a number of agencies such as chambers of commerce and trade or other interest group associations, based on each country’s particular political and administrative tradition. In a number of countries, chambers of commerce or trade association may be private entities, yet operate with substantial government subsidies. Because of these complexities, it is extremely difficult to generalize about industrial country institutional arrangements: the following overview is merely intended to provide some sense of the location of these programs and organizations that operated specific investment promotion programs at the time of the survey.

DEVELOPMENT COOPERATION AGENCIES. Development cooperation agencies play a major role in the support and administration of most foreign investment promotion
programs as part of broader overseas development programs. Only occasionally, and mainly in countries having no cooperation agencies or DFIs (such as Italy) do ministries of foreign affairs carry the responsibility for investment promotion programs. Even in these cases, the ministry may not be directly and operationally involved in promotional activities.

The role of development cooperation agencies/foreign affairs ministries in promotional programs can be direct or indirect, and their involvement can take different forms:

- They often provide the broad policy framework and guidelines for private foreign investment promotion programs that they administer or that are administered by other agencies such as DFIs.
- They fund a variety of investment promotion activities that may be administered by other agencies: support to DFIs, support to different agencies for cosponsorship of investment missions, seminars, sectoral studies, and so on.
- They may directly administer programs.

Some development cooperation agencies have designed and managed a comprehensive national business cooperation program with developing countries, such as Canada's Industrial Cooperation Program located within CIDA. More commonly, development agencies may have specific and limited investment promotion facilities. The German Ministry of Economic Cooperation, for example, has special facilities for feasibility studies as well as the Business Cooperation Program. The ministry provides the funding but has no operational role. These programs are administered by Germany's development finance institution (the DEG) with technical assistance provided to investors by GTZ. The U.S. Agency for International Development (USAID) also provides support for a wide range of traditional investment promotion activities, such as investment missions and seminars, that it usually cosponsors with agencies such as OPIC or the Department of Commerce. A unique feature of USAID's role in investment promotion is the significant resources it provides to support developing countries' capabilities to attract foreign direct investment, including the build-up of investment promotion agencies in a number of these countries. DANIDA in Denmark and SIDA in Sweden also provide funding for trade and investment promotion activities in the SADCC countries of Africa.

**Development Finance Institutions.** Development Finance Institutions, established to encourage private investment in developing countries, have the dual function of investment banks and development institutions. As a result, their financing criteria include both financial viability and economic impact of their activities on host and home
country economies. These institutions generally undertake two types of promotional activities. On the one hand they search for projects that have been identified by a sponsor but need financing; these are project-finding activities. On the other hand, DFIs may be involved in the types of investment promotion activities that are the subject of this paper; these are activities designed to encourage project sponsors to identify and develop investment projects that may, or may not, be financed by the DFI.

DFIs are involved to various degrees in investment promotion activities. Their role, however, is more operational than that of development cooperation agencies, as it is also primarily project-oriented. In the Netherlands, Denmark, Finland, and Sweden promotional activities tend to be concentrated in DFIs, rather than in development cooperation agencies. In Germany, France, and Belgium development agencies and development finance institutions both have promotional functions to various degrees, although the DFI role is more operational.

Most DFIs provide some form of promotional services including basic information and advisory assistance, support for feasibility studies, and some participation in investment missions or seminars. However, only a few have developed comprehensive promotional programs that play a more active role in the sponsorship or cosponsorship of missions, seminars, and substantive facilities for project preparation and start-up. These more general promotional programs provide support for the identification and development of projects that may not need DFI financing.

Several DFIs have established separate promotional departments to extend their services to investors. The Netherlands Development Finance Company (FMO) strengthened its Promotion Services Department in March 1989 by creating a separate Investment Promotion Facility and a Management Assistance and Training Facility. The DEG has traditionally had a strong promotion department, which, with the recent DEG restructuring, was absorbed into a broader Information, Economics, and Public Relations Department.

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10 The following DFIs were visited for this survey:

- **Belgium** SBI—Belgian Corporation for International Investment
- **Denmark** IFU—Industrialization Fund for Developing Countries
- **France** CCCE—Caisse centrale de coopération économique
- **France** PROPARCO—Société de promotion et de participation pour la coopération économique
- **Finland** Finnfund—Finnish Fund for Industrial Development Cooperation, Ltd.
- **Germany** DEG—German Investment and Development Company
- **Germany** KFW—Kreditanstalt fur Wiederaufbau
- **Japan** EXIM Bank—Export Import Bank
- **Japan** OECF—Overseas Economic Cooperation Fund
- **Japan** SBFC—Small Business Finance Corporation
- **Netherlands** FMO—Netherlands Development Finance Company
- **Sweden** Swedfund—Fund for Industrial Cooperation with Developing Countries
- **U.K.** CDC—Commonwealth Development Corporation
- **U.S.** OPIC—Overseas Private Investment Corporation
TECHNICAL COOPERATION AGENCIES. Technical cooperation agencies are playing a growing, although modest, role in FDI promotion. The Japan International Cooperation Agency (JICA) and Japan Consulting Institute (JCI) play an important role in providing technical support to Japanese firms as well as to foreign firms and governments. Services offered by JICA include technical cooperation, grant aid, coordination of Japanese overseas volunteers, development cooperation, emigration services, and recruiting and training of qualified Japanese experts. The JCI's primary purpose is to assist Japanese SMEs seeking trade and investment opportunities in offshore markets. Its promotional services include partial support for pre-feasibility and feasibility studies for investment projects in developing countries; technical consulting services to Japanese firms as well as to foreign governments and other public agencies; and compilation and analysis of technical information by sector for dissemination through JCI project planning manuals. The German Agency for Technical Cooperation is also a case in point. The GTZ (which administers the German official technical cooperation program) and the DEG are executing agencies of the Business Cooperation Program of the Ministry of Economic Cooperation. Under this program, GTZ assistance focuses on transfer of know-how, such as training for German firms established in developing countries, whereas the DEG's assistance emphasizes project identification and preparation. The GTZ also administers PROTRADE, the German government's trade and industry fair program for developing countries. Although the GTZ is working mainly with the public sector in developing countries, it also seeks ways to get more directly involved in private sector development support, and to this end is attempting to design more systematic investment promotion services.

TRADE PROMOTION AGENCIES. As issues of trade and investment have become increasingly interconnected, official trade-promotion agencies whose primary mandate is export promotion, are frequently faced with inquiries about foreign investment. An excerpt from the response of the Swedish Trade Council (EXPORTRADET) to a survey questionnaire used for this study illustrates the concern to assist firms more effectively with investment inquiries:

"Although most of our activity does not aim at promoting investment, to an ever greater extent, our advisory service receives inquiries from abroad about finding Swedish partners for investment, or finding the best production process. When we arrange missions to developing countries, we often come in contact with official bodies or companies from the respective country, that want to discuss investment. Our role is to help both sides to get the right contact and to forward as full and correct information as possible to interested parties about opportunities, rules and regulations--naturally also about difficulties."

Some trade promotion agencies have developed basic information and advisory services. In Italy, the Institute of Foreign Trade (ICE) was virtually the sole agency providing investment promotion support until 1987, when other promotion institutions were created. In a recent report to the Economic and Social Council of the Netherlands,
the Netherlands Foreign Trade Agency (EVD) stressed the importance of providing access to firms for FDI information. As a result, EVD has given increased attention to improving and expanding its trade database to include some foreign investment information. The agency is also trying to link up with broader international databases such as the Euro Information Center in Brussels. In addition, the EVD is becoming more involved in cosponsoring investment promotion seminars.

Through its thirty domestic and seventy-eight foreign offices spread throughout fifty-seven countries, the Japan External Trade Organization (JETRO) is considered the country's premier trade promotion agency. In many respects, JETRO serves as the central information source for Japanese and foreign firms hoping to expand trade and investment activities abroad. This is done through the use of off-the-shelf reports and pamphlets as well as through on-demand advisory services. To JETRO's traditional trade promotion activities, the Japanese Ministry of International Trade and Industry (MITI) added a separate investment promotion division in 1984 to assist foreign and domestic enterprises.

MINISTRIES OF INDUSTRY. As part of their larger mandate, ministries of industry may also play a role in funding some investment promotion activities. (With the exception of the U.K. Ministry of Trade and Industry, these ministries have not been visited for this survey.)

CHAMBERS OF COMMERCE, TRADE ASSOCIATIONS, AND OTHER INTEREST GROUPS. Although Chambers of commerce, trade associations, and other interest groups are usually private sector organizations, in many countries they receive substantial public subsidies. As part of their networking activities, these organizations may provide informal information services and participate in missions and seminars, generally with a broader economic and trade content. These organizations are by definition more business than development oriented. However, some chambers, such as Austria's BWK and Italy's Mondimpresa, operate government-sponsored investment promotion programs. Mondimpresa has recently designed a modern investment promotion facility that provides a comprehensive range of services from information to project preparation assistance.

Trade associations, although not directly involved in investment promotion programs, may nevertheless play a catalytic role. Serving as industry spokesmen, they may influence the shaping of international industrial cooperation through the creation of investment promotion facilities. A recent example is the leading role the Conseil National du Patronat Français (CNPF) played in cosponsoring with partner country agencies the creation of investment promotion facilities, such as the Organisme de Coopération Industrielle France-Asie (OCIFA), geared to initiating and facilitating business contacts and operations between French and Asian investors. OCIFT is a similar service for Turkey and OCIFAL for Latin America.
Recent trends in organizational arrangements

Many governments have taken steps to strengthen their investment promotion programs, as most development agencies are seeking ways to promote private sector development and industrial cooperation more effectively. Some recent initiatives to increase support for private sector development in general and foreign investment in particular include the creation in France of a Department of Cooperation with Enterprises under the Ministry of Cooperation. The Canadian International Development Agency and the German Ministry of Economic Cooperation have in the course of the 1980s strengthened their business cooperation programs. The creation by USAID of a Private Sector Bureau was intended to promote growth of the local private sector in developing countries, but some of its activities have extended support to foreign investment.

At the same time, the increased importance given to foreign investment has led to a proliferation of agencies in some countries; mention was made earlier to some of these programs in France, Germany, and Japan. Among multilateral institutions, investment promotion programs have been added recently by the European Community and the International Trade Center (ITC) of GATT-CTAD. MIGA of the World Bank Group also was established with a clear investment promotion mandate.

There has been a tendency for some governments to shift responsibility for investment promotion from development cooperation agencies to more specialized agencies such as DFIs. Such a shift occurred in the Netherlands in 1989 when the Ministry of Foreign Affairs delegated virtually all of its investment promotion responsibilities to the FMO. A similar shift has been discussed in Belgium. In 1989, the French Ministry of Cooperation delegated operational aspects of investment promotion to the DFI, Caisse Centrale--PROPARCO group, which also provides financing and technical assistance. In Italy, the Directorate General for Development Cooperation of the Ministry of Foreign Affairs administers the funds, but investment promotion responsibilities rest largely with ICE and Mondimpresa. These shifts have occurred because development cooperation agencies face institutional constraints to promote private investment and generally lack technical competence in promotion. There also may be policy conflicts, such as restrictions on the countries where development cooperation agencies can operate, which would limit the effectiveness of investment promotion.

Several countries with investment promotion programs divided among a number of agencies have recently begun to consider how these might be consolidated. In the United States, a Trade Promotion Coordinating Committee was recently created to coordinate the various trade and investment promotion activities of a number of U.S. government agencies (Commerce, USAID, OPIC, TDP, Eximbank, Treasury, State). Germany's ministries of Economic Cooperation and Economic Affairs have begun discussions aimed at improving the coordination of existing investment promotion services. A coordination committee is to be established to review these issues. In Sweden, a task force is currently reviewing Swedish development aid policies and organizational arrangements with the objective of possibly merging with or at least improving coordination between Swedfund, the Swedish International Development Agency, and the Swedish Agency for International
Technical and Economic Cooperation (BITC) to take account of the need to better support private sector development in developing countries.

A number of agencies and DFIs indicate their interest in decentralizing their promotion activities to be closer to the business opportunities both at home and in the host countries. To do this, some countries are creating overseas representatives or offices abroad to serve as intermediaries in making contacts and facilitating business deals. USAID is itself very decentralized, and its overseas missions play a key role in promotional programs. Germany’s DEG has eight Business Cooperation Program consultants in newly industrialized countries (NICs). The Danish development finance institution (IFU) has recently established offices in Lomé, Togo, and in Kuala Lumpur, Malaysia, and plans to create another one for the Latin America/Caribbean region. Mondimpresa (Italy) has also established offices in Peking and Buenos Aires.

Efforts to improve interagency collaboration are being made by all promotion programs. This is seen in various ways, such as in the pooling of resources to cosponsor promotional seminars, missions, and investors’ forums. There is also a trend for promotional facilities to develop closer collaboration with financial institutions that can help with project identification, financing of feasibility studies, and project financing. Linkages are also developed with organizations such as chambers of commerce and associations of industrialists in both industrialized and developing countries.

B. Methods of investment promotion

The fourteen countries and the multilateral institutions surveyed for this study use a wide range of techniques to encourage home country firms to invest in developing countries. Most of the programs are designed to help potential investors get information about opportunities either by providing information directly or by helping the investor find the information required. In addition, a few programs also help investors deal with the difficulties of investing in developing countries.

The programs to provide investor information include some that react to investor inquiries and others that actively seek out potential investors. Information provided on the general investment environment, on specific sectors, and on individual projects is made available in various ways: directly to individual investors; through seminars; and through electronic media to groups. It is usually provided by an industrial country agency, but sometimes by a host country agency sponsored by the industrial country or by an intermediary.

Some of the programs help investors find the information they need directly; normally, however, assistance takes the form of partially or wholly funding the cost of collecting needed information. Programs may also help locate local partners who can assist the investor.

A few promotional programs help the investor structure projects after attractive investment opportunities have been found. These programs help investors find appropriate technology or adapt known technology to the needs of the project, and may provide legal or financial advice. Of course, many industrial countries have financial intermediaries that
have been set up to help finance projects of home country firms investing in developing
countries; such assistance is outside the scope of this study.

There is great diversity among the promotional services offered by industrial countries
and multilateral agencies. Nevertheless, several types of approaches are common to most
of the programs.

- Information services;
- Investment missions and other proactive information programs;
- Matchmaking;
- Sectoral promotion programs;
- Programs to support feasibility studies by investors; and
- Project development and start-up support.

Information services

All the countries surveyed can provide potential investors with general information on the
economies of developing countries. Foreign ministries provide this service on the basis of
information collected by embassies. Many countries also have trade promotion agencies
and DFIs that provide general information on investment conditions to potential investors.

The information from these sources is usually provided on an informal and ad hoc
basis, although some of the countries surveyed have developed more systematic
information sources for the benefit of potential investors. The Overseas Private
Investment Corporation in the United States established in 1984 an Investors Information
Service to assist U.S. investors with basic information on business environments in
developing countries. The information is drawn from a number of U.S. government
agencies and covers a country or region’s economy, political condition, business practices,
investment incentives, and trade laws. The German DEG is considering building an
information system with access to national and international data networks. The German
Federal Office for Foreign Trade Information (BFAI) provides investors with information
on the legal environment for investment in developing countries. Besides offering a
general information service, free consultation privileges, and on-demand customized
technical information service, Japan’s External Trade Organization also has a legal
information service to assist investors in their offshore trade and investment activities. In
Austria, the Federal Economic Chamber (a statutory agency) is developing an information
base and publishes brochures on the business environment in key countries.
Mondimplresa, a similar organization in Italy, is also building an information center to
assist investors.

A few countries have developed databases of more specific investment opportunities
or investment inquiries from developing countries. OPIC in the United States has an
Opportunity Bank with more than 3,000 investment project proposals in 100 developing
countries. The Association of German Chambers of Industry and Commerce (DIHT) is
building a similar database of opportunities for business partnership. JETRO in Japan
provides up-to-date information to Japanese firms on foreign inquiries to JETRO or MITI
from developing country enterprises seeking trade and investment links with Japanese
firms both in Japan and elsewhere. As will be discussed in Chapter 3, the United Nations
Industrial Development Organization (UNIDO) has made an investment opportunities database the core of its investment promotion efforts.

Some of the industrial countries also provide data on home country firms to LDC firms looking for partners. OPIC in the United States, Mondimpresa in Italy, JETRO in Japan, Finnfund in Finland, and IFU in Denmark are among the agencies providing this service. Usually, they provide lists of firms and areas of interest (by region and by industry); with these lists, firms in developing countries can seek out partners for investment and technology.

Table 1 provides an overview of the information services that existed in 1989 in the countries surveyed. These services are designed to respond to inquiries from potential investors. The table does not include information on sectors, which are discussed in connection with sector promotion programs.

**Investment missions and other proactive programs**

The information programs described above are reactive: they are designed to provide responses to investor inquiries. The industrial countries surveyed also have a variety of programs to take information about investment opportunities to potential investors and to induce investors to seek out such information. These programs include the organization of investment missions whereby industrial country firms are taken to developing countries or firms in developing countries are brought to the industrial countries to look for opportunities. Information on investment opportunities is also taken to potential investors through seminars, trade fairs, and electronic media such as teleconferences.

Investment promotion missions and seminars are networking activities designed to allow potential investors to find investment information firsthand and to facilitate direct business contacts. Virtually all of the countries surveyed use these techniques. The missions or seminars can be geared toward one country or a group of countries. They can be general in nature or focus on a specific sector, industry, or issue. They can be large, involving hundreds of people, or quite small (a few prospective investors). They can be one-time events or they can be repeated regularly.

In Japan (with the exception of JETRO, which is primarily limited to serving information needs of firms and governments), all promotion agencies either sponsor or participate in promotion missions. For example, JAIDO’s first promotion mission was to the Philippines, and since that time it has gradually expanded out from the Asia region to include such countries as Saudi Arabia. Even smaller institutions such as the Small Business Finance Corporation (SBFC) participate in investment promotion missions to compile information on foreign markets. Most promotion missions are organized on an ad hoc basis, and most missions serve to gather information for future distribution in published form to Japanese firms.

The Libreville Meetings (Les Rencontres de Libreville), organized with the support of the French Ministry of Cooperation in Libreville (Gabon), is an example of a large-scale forum with the objective of promoting African private enterprise through joint ventures with French companies. The first event, held in 1987, involved approximately 1,000 French and African business people, and it is expected that the forum will take place
Table 1. Investment information services in industrialized countries surveyed

<table>
<thead>
<tr>
<th>Country</th>
<th>General Information Services</th>
<th>General Information Database</th>
<th>Investment Opportunity Database</th>
<th>Home Country Firm Database</th>
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<td>Austria</td>
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<td>United States</td>
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</table>

A Available.
A(IU) For internal use of institution.
NA Not available.
NF No formal database, but information generally existing in development finance institutions, for example.
D In the process of being developed.
M Access to multilateral schemes--UNIDO, the EC's CDI and IIP, and GATT-UNCTAD ITC offices in the country.

Annually. A permanent secretariat was created in Paris and national committees in African countries to provide ongoing information with respect to general business conditions in Africa and project proposals. The permanent secretariat also does technical studies and guides entrepreneurs in project identification. A directory provides information on participants and business interests.

The Miami Conference on the Caribbean Region, also an annual event, is sponsored by the U.S. Department of Commerce, the Caribbean Action Committee, and USAID, which provides a major part of the financing. The conference draws over 2,000 participants. Within the framework of the Lomé Convention, the European Community has sponsored a series of large-scale investor forums with African, Caribbean, and Pacific countries. The West African Industrial Forum, for example, has taken place in Dakar every two years since 1974 and involves at least 1,000 participants.
German agencies use a wide range of seminars and trade fairs to interest German firms in investment opportunities in developing countries. The Business Cooperation Program (operated jointly by the DEG and GTZ), which will be described later in more detail, includes seminars for eight LDC partner countries where investment projects for the countries are presented to potential investors. However, the number of seminars has been reduced sharply in recent years. The Federation of German Industries (BDI) also presents a selected developing country at the Hanover Fair every two years.

A few countries (Austria and Italy, for example) are currently very active in organizing seminars and conferences on the theme of globalization of industry and opportunities for investment in newly industrialized countries and developing countries presented as investment sites. Italy's Mondimpresa has taken the lead, in 1988 organizing a series of ten informational seminars on the theme of Italian cooperation and joint ventures in developing countries. Some of these seminars, held in different Italian cities, involved hundreds of participants from different professional groups. In Austria, the BWK planned four categories of activities in 1989: two symposia on technology and engineering; twelve economic missions with emphasis on "internationalization"; sixteen missions focusing on investment production factors; and six technology and engineering fairs abroad.

DFIs tend to sponsor (or more frequently cosponsor with other agencies or trade associations) smaller targeted investment missions. The DEG in Germany used to organize three to six missions a year, although the number has been reduced recently. Finnfund organizes about one investment mission a year. Typically, these missions focus on one or a few specific sectors and involve a visit of five to fifteen prospective investors to a particular country. As a rule, participants pay their own travel and maintenance expenses, and mission organization expenses are supported in part or in full by the sponsoring agency or agencies. The sponsoring DFIs hope to cofinance projects that may be identified as a result of these missions.

The Netherlands Development Finance Company, which sponsors or cosponsors one or two investment missions a year, stresses its emphasis on organizing clearly targeted missions involving a few carefully selected prospective investors. For such missions, the FMO contributes up to a maximum of 50 percent of travel cost for Dutch business people, and 75 percent of travel and daily subsistence cost for developing country participants, in addition to all of the preparation cost in the Netherlands or in the developing country. One example of such a mission is the "Jamaica-Dutch Business Cooperation" mission, which took place November 21-25, 1988; this mission included twelve Dutch business people in the floricultural and ancillary sectors (packaging industries, etc.). A brochure presenting the participants' and firms' capabilities and interests was distributed beforehand in Jamaica, and visits were arranged with preselected investors in Jamaica.

Usually, investment missions from the home country of potential investors go to potential host developing countries. "Reverse missions" involve the visit of LDC businessmen to an OECD country. According to some observers, reverse missions may be less effective because investors from the industrial countries are more passive toward LDC entrepreneurs visiting them in their own country than when they are visiting a developing country. Nevertheless, business associations, chambers of commerce, or other
official agencies often host trade/investment missions of LDC businessmen. For example, the Association of German Chambers of Industry and Commerce hosts about thirty business missions a year in Germany.

These are but a sample of the activities investment promotion agencies carry out as they attempt to bring developing countries to the attention of investors. In recent years, new techniques have been used for this purpose: for example, in April 1982, OPIC, together with the United Nations Development Program (UNDP), cosponsored a live two-way television broadcast that linked 800 U.S. business executives in Los Angeles, San Francisco, New York, Boston, Chicago, and Minneapolis with top officials and business leaders in Egypt. The two-hour program was introduced by Presidents Reagan and Mubarak and was moderated by broadcaster Walter Cronkite. It focused on investment opportunities in the areas of food production and processing, construction materials, and medical products. Prerecorded segments provided U.S. viewers with basic investment information and live segments served to answer investor questions and to clarify Egyptian investment policies. This broadcast was followed by an OPIC investment mission to Egypt. In the fall of 1983, OPIC cosponsored (with USAID) a similar event for the Caribbean, which linked more than 1,000 business executives in several U.S. cities with a panel of Caribbean experts assembled in Miami to answer questions about the investment climate of various Caribbean countries.

**Matchmaking**

Matchmaking is a basic investment promotion technique used by most of the industrial countries surveyed for the study. As do missions and seminars, matchmaking brings information about investment opportunities to the attention of potential investors in industrial countries. However, it is a much more direct technique that tries to match one investor with an identified opportunity. In its simplest form, matchmaking first involves the identification of an investment opportunity in a developing country. Then, the investment promoter looks for an interested investor in an industrial country. The promoter may provide other facilitating services, as well.

Variations on the technique can occur at each stage of the process. For example, the investment opportunity may be identified by a local private investor who then approaches a promoter to get help in finding a partner. Alternatively, the promoter may take an active part in finding investment opportunities. A few of the industrial country programs, (the Business Cooperation Program in Germany), for example, have consultants located in developing countries to identify firms with investment prospects or even to identify worthwhile projects directly. The promoter thus may take an active role on the one hand or may react to initiatives coming from developing countries on the other. The promoter also may take either a systematic or an ad hoc approach to finding a partner in the industrial country. Finally, the promoter may be the government agency sponsoring the investment promotion program or an intermediary commissioned by the agency. All of these variations are found among the industrial country programs surveyed.

Matchmaking is done on an ad hoc basis by most of the DFIs that have been established by many industrial countries. As noted, these institutions were created mainly
to provide financing to firms that are interested in investing in developing countries. In order to develop their financing business, however, they must also promote investment projects, including matchmaking. Consequently, DFIs will respond to inquiries from local investors in developing countries by trying to locate a partner in their home country.

Some DFIs and other agencies have initiated more active matchmaking activities—the Business Cooperation Program in Germany is an example. This program currently sponsors thirty-two advisors in developing countries, with twenty-six liaison contacts in Germany. Among other activities, the advisors seek investment and technology transfer opportunities in the countries where they are stationed, and the contacts in Germany try to find investment or technology partners. The FMO in the Netherlands and IFU in Denmark are now also establishing representatives in developing countries to help find investment projects.

Several Japanese agencies also engage in matchmaking, including sending representatives to reside in developing countries. The newest of these, JAIDO, was established in 1989 by Keidanren (which represents Japan’s most prominent private firms), 100 private firms, and the Japanese government. JAIDO will identify projects and conduct a search for partners among Japanese firms. It also will have the capability to invest in the equity of the projects it supports.

Besides their own matchmaking efforts, some industrial country agencies have begun to contract with private intermediaries such as consulting firms, universities, and individuals to provide the service. USAID has been one such agency that has pioneered this approach. A recent review of some of these programs revealed the following examples.11

- Under one USAID project, selected U.S. traders and business brokers have received partial funding to put together deals from which they expect to receive future profits through participation or fees. The premise is that firms with existing business networks in the United States could profitably expand their activities overseas on the basis of a partial and temporary subsidy.

- In Thailand and Sri Lanka, two U.S. consulting firms were brought in to help local entrepreneurs arrange deals with U.S. partners. These firms relied on trade shows, direct and indirect promotional activities, and investment missions to find U.S. partners. Likewise, in Portugal, the USAID Mission funded a contract with Price Waterhouse to promote trade and investment through the Foreign Investment Institute of Portugal by identifying projects that would be suitable for U.S./Portuguese joint ventures.

- USAID has also used the International Executive Service Corps (IESC) to make business links between developing countries and U.S. firms. The IESC consists of 10,000 volunteers and retired executives willing to contribute their

management and technical know-how to develop LDC enterprises. Recently, the IESC launched the Trade and Investment Service (TIS) and the American Business Linkage (ABLE) programs to link U.S. and foreign firms for joint ventures, collaborative technology programs, and other ventures to benefit U.S. and developing country SMEs.

UNIDO and the EC investors forums also try to match potential investors with projects by using consultants to identify projects to present to investors on these occasions. Potential investors from both host and industrial countries then meet for several days in a forum to determine whether any joint ventures can be formed to carry out any of the projects. At the forum, the sponsoring organizations arrange face-to-face meetings between local and foreign investors interested in a particular project. During the course of the forum, these investors may sign a letter of intent to proceed with a venture or they may agree to continue meeting after the forum ends. UNIDO and EC forums are discussed further in Chapter 3, Part B.

An individual or organization from the developing country can also serve as the intermediary for matchmaking. The UNIDO Delegates Program (described in more detail in Chapter 3) brings representatives of developing countries to offices of the UNIDO Investment Promotion Services located in industrial countries, where they spend several years trying to promote investments in their country, including finding investors for specific projects that have been identified. A similar short-term arrangement is carried out by the Belgian Corporation for International Investment (SBI), which yearly hosts representatives from four or five developing countries for periods of a few days to several weeks. These representatives are expected to develop business linkages between Belgian firms and firms in their own countries.

UNIDO is developing another method of matchmaking that focuses on specific sectors: these efforts have been developed with Japan in electronics and steel, Italy in renewable energy equipment, and France in cooperation with the International Finance Corporation in the agro-industrial sector. The approach identifies companies in industrialized countries that have productive technologies suitable for developing countries and are willing to transfer such technology under partnership arrangements. Entrepreneurs in the developing countries that may use these technologies are contacted with the help of UNIDO and the industrial country firm. It is expected that these contacts will lead to an ongoing and in-depth dialogue on technological and marketing aspects of projects that would use the foreign technology; hopefully, such discussions will then lead to the formation of joint ventures. Experience with this approach has been relatively favorable.

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12 The IESC, established in 1964, has thirty-two offices overseas. Grants from USAID and more than 200 U.S. private firms cover part of IESC's operational cost. USAID missions may support part of the travel costs for IESC volunteers. Since 1983, the IESC has completed nearly 3,000 projects in developing countries.
**Sector promotion**

The sectoral approach to promotion is not as concrete as matchmaking, in that specific projects are not identified. Rather, the promotional agency identifies more generally the opportunities that might exist in a particular country and sector and may also identify the kinds of investment that could best take advantage of the opportunities. The agency may provide assistance to firms in developing concrete projects but does not itself take responsibility for project identification.

Sector promotion should be distinguished from matchmaking that is done on a sectoral basis. For example, promotional agencies have sometimes concentrated on specific sectors when identifying projects for purposes of matchmaking; there are also many instances of investment missions having a sector focus (e.g., Swedfund missions concentrating on the wood industry or agriculture). While these approaches contain aspects of sector promotion, they do not encompass the entire technique, which includes the following elements:

- Selecting a country and sector;
- Undertaking front-end work to identify opportunities and types of investment that could be profitable and beneficial to the country;
- Informing potential investors of the opportunities; and
- Helping investors identify and develop specific projects.

The attraction of sectoral promotion is that it puts the burden of project development where it belongs. Experience has shown that virtually all investors want to develop their own projects and usually disregard project feasibility studies and project profiles that are developed by investment promotion agencies. Such specific project data are of interest to investors only for what they reveal about opportunities more generally. Consequently, much of the "concreteness" that is found in project profiles and feasibility studies developed by promotional agencies is wasted effort. Sector promotion programs recognize this fact and concentrate on providing only the information needed to encourage investors to move on their own.

Some multilateral institutions have taken the lead in developing sector-promotion techniques. In the late 1970s and early 1980s, IFC undertook to promote investment, both domestic and foreign, in poultry and shrimp industries in a number of developing countries. These efforts had some success, particularly in inducing investments in shrimp cultivation in a few countries. UNIDO also has begun to develop some sector promotion programs.

The Multilateral Investment Guarantee Agency (MIGA) has most recently taken up sector promotion by developing investment promotion seminars with a sectoral focus: the first, held in Ghana in February 1990, focused on agro-industry and furniture manufacturing; the second, held in Hungary in September 1990, focused on agro-processing and electronics; the third, held in Jamaica in February 1991, focused on Jamaica's nontraditional sectors such as agro-industry, information processing, non-metallic mining, textiles and apparel, and furniture manufacturing. These seminars
included most elements of the sector-promotion technique, including efforts to identify opportunities in the target sectors.

Successful investment promotion agencies in both industrial and developing countries use sector promotion techniques extensively. These agencies include the Industrial Development Authority of Ireland, the Economic Development Board of Singapore, and Malaysia's Industrial Development Agency. After identifying opportunities in specific sectors, these agencies will actively target specific foreign firms for promotion through their own offices located in industrial countries.

Among the industrial countries, sectoral promotion is a less extensively used but growing promotion technique. The German DEG has sponsored studies of the chemical and maintenance sectors that have been used in promotion efforts. The IFU in Denmark also has sponsored sector studies, such as one on agro-industry in Thailand cosponsored with the European Community and used to promote investment by Danish firms.

Among Japanese investment promotion agencies, the Japanese Consulting Institute, the Japan External Trade Organization, the Overseas Economic Cooperation Fund (OECF), and the Japan International Cooperation Agency use sector-specific studies. In most cases, however, these are not conducted on a regular basis. Of these four agencies, JICA perhaps is the most active participant in sector promotion. This is a result of its organizational structure which breaks down neatly into nine commodity and industry groups. These serve as a means of executing sector-specific studies.

Finnfund has cosponsored sector studies with Finnish companies interested in joint ventures or industrial collaboration in developing countries. Finnfund covers 50 percent or sometimes more of a study's cost. Recently, studies have been conducted on the agro-processing, food, footwear, and garment industries. These studies reflect the individual interests of the cosponsoring firms, and thus provide a broad range of practical information on these sectors and examine the potential for Finnish joint ventures. They have been instrumental in the establishment of several projects.

Support for feasibility studies

Firms that become interested in an LDC investment opportunity—as a result of a sector-promotion effort or for other reasons—will want to do a feasibility study of the prospect. Many industrial countries have programs to induce firms to take this next step in the investment decision process, perhaps funding part or all of a pre-feasibility or full feasibility study. Agencies tend to prefer to fund feasibility studies because they are thought to be more likely than other promotion activities to result in investments.

The current trend in DFIs such as the Netherlands Development Finance Company, Swedfund in Sweden, Finnfund, and in agencies such as the German Ministry of Economic Cooperation, and the Italian Institute for Foreign Trade is to require the project sponsor to share a part (usually about 50 percent) of the feasibility study cost with the

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13 In its matchmaking activities, the DEG also has a strong sectoral emphasis. Its promotion department is divided into ten sectoral units, each headed by an industry expert.
Institution. If the project is implemented, the sponsor reimburses the institution; however, if the institution helps to finance the investment project itself, the institution's contribution to the feasibility study may be capitalized as part of the project financing.

These financing provisions, of course, vary between agencies. The Industrial Fund for Developing Countries in Denmark provides two-year loans to Danish companies for financing pre-feasibility and feasibility studies. If the study shows that the project is not feasible, IFU can buy the rights to the study by refunding up to 30 percent of the loan. If, on the other hand, the feasibility study leads to an investment, IFU may convert the loan into a grant. In France, the Fund for Reimbursable Feasibility Studies (FER) supports up to 80 percent of the study cost, which the sponsor reimburses if the project is implemented. As of September 1988, eighty-six requests for funding had been received and sixteen projects were considered for receiving support. In Japan, JICA helped to fund a small number of feasibility studies (nine in 1988), while JCI, which is funded by the Japanese government, sponsored feasibility study trips for thirty-six individuals.

A number of countries including Austria, Belgium, Italy, Switzerland, the U.K., and the U.S. have either limited or no facilities for supporting feasibility studies. Austria's BWK, as part of its current efforts to build up an investment promotion facility, is examining the possibility of providing support for feasibility studies. In Italy, pre-feasibility studies and feasibility studies are provided on a small scale by ICE, which has a special agreement with the EC Center for the Development of Industry and UNIDO. Switzerland's Federal Office for Foreign Economic Affairs (FOFEA) may occasionally provide up to 50 percent of the study cost, based on project merit.

In the United Kingdom, a small facility for feasibility studies operated by the Overseas Development Administration has been discontinued, and the Commonwealth Development Corporation does not offer this type of service. The lack of official support for investment promotion contrasts with the substantial funding made available for export promotion to such agencies as the British Overseas Trade Board, which receives support for market strategy studies and feasibility studies for export of plants and services.

In the United States, OPIC supported 106 feasibility studies from 1981 to 1986 of which 92 percent were for small businesses. OPIC support of feasibility studies was suspended in 1986, however, due to budget cutbacks. Currently, feasibility studies may be supported to a limited extent by USAID; the U.S. Trade and Development Program (TDP) also may support up to 50 percent of study cost on a reimbursable basis. This support is subject to such stringent conditions that in FY89, only three feasibility studies were supported by TDP.

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15 The TDP is an agency of the U.S. International Development Cooperation Agency (IDCA), established in 1980 as an independent organization with the dual objective of assisting the economic development of friendly developing countries and middle-income countries; and promoting the export of U.S. goods and services to these countries.
Project development and start-up support

Once a project’s feasibility has been established, a few bilateral programs provide support for project development and start-up. This type of assistance seems particularly welcome to smaller firms with no experience in investment projects in developing countries, and often includes help in finding financing, preparing contractual agreements, adapting technology for developing country environments, and training local personnel.

Development finance institutions, by the very nature of their activities, provide various degrees of preparation assistance for their own projects. Among countries that have no DFIs, Canada and Italy provide project development support. The International Investment Partners (IIP) program of the European Community (commonly called the Cheysson Facility) also offers substantive project preparation services as part of its industrial promotion package. In Italy, Mondimpresa provides consultancy services to help investors structure financial plans and legal documents.

In Canada, CIDA-INC’s Technology Transfer Facility (CTTF) helps firms offset costs of testing and adapting technology to conditions in developing countries. In order to qualify for assistance, the Canadian company must demonstrate that it has or is in the process of concluding a long-term business collaboration in a developing country; that the technology involved in the adaptation/testing is already proven and under industrial production; and that the activities proposed for CTTF funding do not involve basic research a company should undertake as part of its normal research and development effort. The maximum CTTF contribution is in the form of a nonrefundable grant of up to C$250,000 for pre-authorized expenses. The grant may be used to cover living expenses of Canadian personnel abroad or foreign personnel in Canada, equipment, training, etc. It is expected that the Canadian firm and the host country collaborator will share the cost of supporting the adaptation/testing with CIDA. The contribution available from CIDA under the principle of risk sharing is weighed against a series of criteria that include the efforts of the collaborator in the host country and the level of risk assumed by all parties.

Germany provides substantial technical assistance to German firms in developing countries, especially SMEs, through the GTZ and the Kreditanstalt für Wiederaufbau. The KfW Technology Program promotes the economic application of new technologies by German enterprises in developing countries through joint ventures. Concessional loans can be used to finance the costs of setting up production, including management costs, training of local personnel, technological improvements, and renewal of production methods. The GTZ, which implements official German technical cooperation with developing countries, has a broad range of technical assistance services. Financial support is also available; for example, to aid on-the-job vocational training in LDCs, the GTZ Apprenticeship Program pays DM 100 to 400 per trainee per month.

France, through the Ministry of Cooperation and the Cooperation and Cultural Action Missions (MCAC), offers different measures such as intervention credits to enterprises for financing equipment, technical assistance, and training, for up to 50 percent of the project’s cost for projects with a clear development component. In March 1988, the Audit Assistance Africa Fund was created to assist companies needing restructuring with their audit expenses.
In addition to financial support after a project has been initiated, many SMEs need continued technical support in the form of legal counseling, technical assistance, and management assistance to ensure some degree of project continuity. With this in mind, Japan's Export Import Bank (EXIM Bank), JCI, and JICA provide project development and start-up support. In the case of JICA, the Procurement Department provides various legal, contractual, and technical consultation to both foreign governments and Japanese firms.

A number of international organizations have placed increasing emphasis on providing support at the project preparation phase, as well as in some cases in the start-up phase. UNIDO, for example, as part of its strategy for 1990-95 is attempting to expand the scope of its activities--largely concentrated on project identification and matchmaking--to help investment projects reach the point where they can be submitted to financing institutions. The Project Development Facility of UNIDO's Investment Promotion Service (IPS) in Cologne is an example of one approach which could be expanded. The EC Center for the Development of Industry (EC-CDI) also considers that it would be useful to expand its project preparation support and reinforce its technical assistance.

The International Finance Corporation (IFC) was perhaps the first institution to support the concept of a project development facility with support from UNDP and various bilateral aid programs. IFC initiated the Caribbean Project Development Facility (CPDF) and the African Project Development Facility (APDF) to identify and promote industrial investment projects in these regions. It should be mentioned that in these cases the objective is primarily to assist the development of ventures by local entrepreneurs.

Besides these forms of project support, some promotional programs reviewed include specific support facilities for projects in the start-up phase. Canada's CIDA-INC, Netherlands' FMO, France's Caisse Centrale de Coopération Economique (CCCE), and Finland's Finnfund provide such support. As part of its Industrial Cooperation Program, CIDA has established the Canadian Project Support Facility (CPSF) to offset certain start-up costs that are specific to the industrial and commercial environment of a developing country. CPSF assistance may cover provision of training, technical assistance, project-related equipment and facilities, and other costs not normally incurred if the venture were established in a more industrialized country. The facility can also support the addition of components to a venture that will increase its developmental impact.

CIDA's contribution to the CPSF takes the form of a nonrefundable grant of up to C$250,000 for pre-authorized expenses. The CIDA contribution is on a risk-sharing basis; it is expected that the Canadian firm and host-country collaborator will share the adaptation/testing expenses.

In March 1989, the Netherlands' FMO strengthened its Promotion Services Department by establishing two facilities--the Investment Promotion Facility and the Management Assistance and Training Facility. The latter provides various types of project support assistance, such as consultancy and technical assistance services.
Selected bilateral and multilateral investment promotion programs

The preceding chapter presented an overview of the organization and content of the promotional programs. This chapter approaches the subject in a different way, describing a few of the larger and more distinctive bilateral and multilateral programs to show how the elements described in Chapter 2 are put together in various countries and international institutions.

A. Country promotional programs

The country programs described below are among the largest bilateral promotion programs, each taking a different approach to both content and organization of investment promotion activities. The Canadian program emphasizes investor services, while the U.S. program mainly supports the efforts of developing countries to build their own investment promotion programs. The German and Japanese programs both employ substantial resources and a wide range of organizations to encourage direct investment but reveal substantial differences in content and organization.

Canada

The Canadian Industrial Cooperation Program (INC), administered by the Canadian International Development Agency, stands out as a centralized and well-publicized investment promotion program that provides a range of services to investors. It is motivated by a balance of developmental and commercial concerns. A characteristic of INC is that it is designed to act primarily in response to initiatives taken by the Canadian private sector. In this perspective, support services are provided not so much to induce firms to search for opportunities as to respond to the initiatives of Canadian project sponsors. By financing part of the cost of creating joint ventures, the program helps underwrite part of the risk Canadian companies face when they investigate potential opportunities for long-term business collaboration in developing countries.

The program's origin and growth is indicative of the dual developmental and business concerns underlying it. CIDA-INC was established in 1978 to stimulate increased participation by the Canadian private sector in the industrial development of the developing world. In September 1984, INC became part of the new Business Cooperation Branch, which was "set up to respond to increasing pressure from the business community for a focal point in the agency with which they could interact, as greater reliance was
placed in Canada and the Third World on the private sector to implement aid-funded economic development programs.\textsuperscript{16}

CIDA-INC provides a broad range of support services from project identification to project preparation and project development. The program also provides some support for making contacts and identifying investment opportunities through seminars and investment missions (approximately ten missions and exhibition activities take place per year, and seventy workshops and meetings). It does not, however, emphasize such activities, as INC is designed to respond to project sponsors' initiatives under the principle of risk-sharing.

The program provides financial incentives to sound Canadian companies interested in long-term business cooperation agreements with developing countries. Although the program recognizes the particular needs of SMEs in this process, it has no formal requirement about company size. Each proposal must clearly demonstrate mutual social, economic, and industrial benefits to the host country. The CIDA-INC program centers around three types of activities:

**INVESTMENT.** The investment-oriented programs help eligible Canadian companies, particularly manufacturers, conduct preliminary or in-depth studies on the possibility of long-term cooperative agreements with developing country businesses. The three available mechanisms are:

- Starter study support;
- Viability study support; and
- Project support.

**PROFESSIONAL SERVICES.** The services-oriented programs help eligible organizations (mainly consulting firms, financial institutions, and business associations) conduct studies and also provide professional guidance and advice to potential partners in developing countries. Assistance is available through five mechanisms:

- Capital project preliminary study;
- Capital project detailed study;
- Capital project support;
- Industrial plant rehabilitation; and
- Industrial planning and development.

**SPECIALIZED ACTIVITIES.** The programs related to specialized activities support other activities that could have a major developmental and economic impact on developing countries.

• Seminars;
• Missions;
• Technology transfer exhibitions;
• Specialized training institutes;
• CIDA’s Trust Fund with IFC;
• Canada’s Trade Facilitation Office; and the
• Canadian Fund for Local Initiatives.

Unlike most official investment promotion programs in industrial countries, Canadian business cooperation services are made available under one single agency—CIDA-INC. This "one-stop" arrangement greatly facilitates efforts by prospective project sponsors seeking official support for implementing projects in developing countries.

CIDA-INC has made major efforts to publicize its program and, surprisingly, is almost unique in this regard among the programs surveyed. The program is presented in several types of brochures providing general to practical and detailed information on how to access the various promotional facilities. As part of its public relations efforts CIDA-INC organizes a number of seminars annually and conducts other events to make its business cooperation program known in the business community.

A measure of the program’s success is the high level of demand for its services; from CIDA-INC’s inception in 1978, until 1987, it has assisted more than 1,500 Canadian firms in approximately ninety developing countries. The program’s total promotional budget amounted to C$59 million in 1989-90, and it is expected that this amount will increase in the future.

Germany

The German investor seeking support to invest in developing countries may find a variety of official services, information, feasibility studies, project preparation, and support as well as project finance and guarantees. Although the DEG is the only institution whose sole mandate is to promote foreign direct investment in developing countries, some promotional services are available from several other agencies.17

17 The agencies visited for the survey are the following:
- Bundesministerium für Wirtschaftliche Zusammenarbeit, (Ministry of Economic Cooperation)
- Deutsche Investitions-und Entwicklungs Gesellschaft mbH (DEG), (German Investment and Development Company)
- Deutsche Gesellschaft für Technische Zusammenarbeit, GMBH (GTZ), (German Agency for Technical Cooperation)
- Kreditanstalt für Wiederaufbau (KfW)
- Bundesstelle Fur Aussenhandels Information (BFAI), (Federal Office of Foreign Trade Information)
- Deutscher Industrie und Handelstag (DIHT), (Association of German Chambers of Industry and Commerce)
- Bundesverband der Deutschen Industrie (BDI), (Federation of German Industries)
The German investment promotion programs are predominantly development driven. The official position is to limit assistance to that needed to offset the additional costs and risks associated with doing business in developing countries. This view also requires that countries wishing to attract foreign direct investment should be responsible for creating a conducive business environment. The programs are designed to encourage small- and medium-scale German enterprises—which constitute the large majority of German companies—to invest in joint ventures with local firms in developing countries.

**The Ministry of Economic Cooperation.** In 1979, the German Ministry of Economic Cooperation initiated a support program to include financial services through credit lines and a feasibility studies facility. A major component of the current program, which was strengthened in 1985, is the Business Cooperation Program, whose objective is to encourage long-term cooperation between LDC enterprises and German SMEs. The DEG and GTZ are the executing agencies for the program, which offers advisory services to promote trade, technology transfer, and joint ventures between firms in developing countries and Germany. The program offers consulting teams, including members based in developing countries, either in boards of investment or in private sector organizations such as chambers of commerce. Other team members based in Germany are in charge of the particular program for the developing country concerned. Currently, there are thirty-two advisors in developing countries and twenty-six in Germany.

The consultancy team responds to the needs of LDC entrepreneurs, helping them to find technology, joint venture partners, and market opportunities. The Business Cooperation Program has recently begun advisory services to national LDC institutions for the promotion of private enterprise in the areas of joint ventures, transfer of technology and know-how, subcontracting, licensing agreements, and export marketing.

**German Investment and Development Company.** A focal point for the promotion of German FDI in developing countries is the DEG, established in 1962, which provides financial services in the form of equity and loans, financing, and consulting services for project development and implementation.

Currently, DEG promotional activities center around two main services. As one of the executing agencies of the Business Cooperation Program, the DEG offers a decentralized form of promotion for investments and other forms of foreign commitments through its eight "Business Cooperation" consultants in seven countries—India (with two consultants), Indonesia, Malaysia, Morocco, the Philippines, Thailand, and Turkey. Country-oriented promotion is also carried out in several other Asian, African, and Latin American countries. Furthermore, to encourage industrial cooperation between enterprises from EC countries and African, Caribbean, and Pacific states, the DEG has placed an advisor at the disposal of the Centre for the Development of Industry (CDI), one of the EC agencies for the promotion of industrial partnership. The program publishes Cooperation Guides providing information on investment and sources of official assistance, organizes investment seminars for different countries at the yearly Hanover Fair, and commissions sector studies to back up promotional activities.
In addition to administering the Business Cooperation Program, the DEG has set up a promotional service formally organized in industrial sectors. The service identifies German firms that may be interested in investing in developing countries and provides advisory assistance to them at all stages of project identification and preparation.

The DEG also may help SMEs obtain support for feasibility studies (large companies are not eligible). As part of its promotional services, the DEG is developing an Information Center with a database (mainly for DEG operational use) that contains basic information on 9,000 German and European companies. To improve the quality and amount of information on countries, the DEG draws on business or economic data and information suppliers rather than building up its own database.

Following a recent restructuring, the DEG is seeking to increase the share of fee-based services as part of an attempt to make promotion programs more financially self-supporting.

GermAn aGEnCy for technIcal COOPERAtION. The GTZ is a public agency commissioned by the Ministry for Economic Cooperation to implement official German technical cooperation with developing countries. The agency has recently been seeking ways to become more directly involved in supporting private sector development.

GTZ activities in business promotion mainly center on the Business Cooperation Program, for which the GTZ, also, is an executing agency. Assistance by the GTZ emphasizes transfer of know-how such as training to German companies in developing countries. The agency’s comparative advantage is in technical assistance through its Short-Term Experts Program, its Senior Expert Service Program, its Integrated Expert Program (cosponsored with other agencies), and its Apprenticeship Program.

Resources for the promotion of industrial projects are very modest. The agency occasionally provides support for pre-feasibility and feasibility studies, but for project identification and investment data, the GTZ relies on the information provided by the DEG and other agencies. The GTZ also cosponsors some sectoral studies, business seminars, and broader international industrial fairs in Germany.

Kreditanstalt für wiederaufbau. The KfW was originally established to administer Marshall Plan funds for Germany’s economic reconstruction. Over the years, however, the KfW’s mandate has been enlarged to include some development responsibilities such as concessional loans to encourage investment by German firms in developing countries. Current emphasis rests on newly industrialized countries.

The Subsidiary Companies Program was set up in 1979 to provide concessional loans for the establishment of German subsidiaries in developing countries. The Technology Program provides loans to encourage the economic application of new technologies by German firms in joint ventures in developing countries. While the KfW is not involved in investment promotion activities as such, it may occasionally provide assistance for feasibility studies.

FederAl aGEnCy for foreign trade information. The primary mandate of the BFAI is to provide trade information to support the development of German exports; over
the years, however, the agency has provided information related to other forms of industrial cooperation. Through its trade journals, such as *Foreign Trade News* and *Foreign Inquiries*, the BFAI disseminates information on joint ventures, licensing, and other forms of industrial cooperation opportunities and inquiries. The BFAI operates a database containing some investment-related information obtained from the network of foreign chambers of commerce and German embassies. BFAI information is provided on a fee basis.

Due to the large number of business inquiries, the BFAI has established a legal service to provide information on investment codes, and business climates in developing countries, for example, and may also provide basic legal advisory assistance for project preparation.

**Association of German Chambers of Industry and Commerce.** The DIHT represents sixty-nine domestic local chambers and fifty bilateral foreign chambers or *Auslandshandelskammern* and delegations in forty-five countries, including over twenty-five in developing countries. The DIHT assists German companies by:

- **Providing business information.** The DIHT provides information on business partnership opportunities through a centralized information system that is coordinated with that of the BFAI in Cologne. The association is attempting to develop its own information database, however. Fee-based services include specific project-related information and consultancy.

- **Organizing seminars.** These events are generally cosponsored with other agencies or organizations.

- **Hosting business missions from LDCs.** The DIHT hosts (in Germany) about thirty business (export/investment) missions from developing countries a year.

**Federation of German Industries.** The BDI is the central organization of the industrial business associations and as such represents all of German industry. BDI promotional activities, which are mainly of a networking nature, are organized by its international development department. These activities involve the organization or cosponsorship of business seminars and missions, which commonly include from five to twenty high-level business officials representing a broad spectrum of industries. Sector-specific missions are organized by the related trade associations.

**Conclusion.** The German Government offers a variety of support to investors wishing to invest in developing countries. Although complete data on resources devoted to these programs are unavailable, one indication is that the DEG's investment promotion program costs about DM9 million per year, of which DM7 million is for its share of the Business Cooperation Program. More than in other countries, German promotional programs use fees to help recover costs; for example, the DEG, BFAI, and DIHT now charge for some services.
Despite the variety and magnitude of the German promotional program, there is increasing concern in both government and the business community that the promotional program is not as effective as it might be. The main concern is with the large number of agencies involved. On the one hand, firms have to access a large number of programs that offer a range of promotion services; on the other, there is possible duplication among programs.

Reflecting the growing concern, more consideration is being given to improving coordination among the programs. A start has been made in this direction with the publication of the details of different sources by the Ministry of Economic Cooperation--Deutsche Unternekmen und Entwicklungsländer (German Enterprises and Developing Countries). Various agencies and private sector organizations have initiated discussions on coordination with the Ministry of Cooperation, Economic Affairs; greater coordination and hence improved performance of the promotion programs await the outcome of these discussions.

Japan

In Japan, investment promotion activities historically have been the domain of private trading companies. Although most promotional activities by trading companies are conducted on an informal basis, access to market information and the wide range of contacts they have in foreign markets make trading companies an ideal vehicle for this task. However, with the substantial rise in the number of Japan’s FDI transactions in recent years, the trading companies can no longer keep pace with the volume and specific demands of Japanese investors. Consequently, investors have gone to the government with demands for a more formal and universally available investment promotion service.

The Japanese government has responded with substantial human and financial resource commitments to begin development of a promotional program to meet the needs of Japanese businesses seeking investment opportunities in foreign markets. Yet investment promotion is still a new and unfamiliar responsibility for government and quasi-government agencies, and most agencies are still identifying and experimenting with various mechanisms. Moreover, the two ministries primarily responsible for coordinating Japan’s promotional activities—the Ministry of International Trade and Industry and the Ministry of Finance—are still in the process of identifying their overall policy objectives and management structure.

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The following agencies were visited for the survey:
- The Ministry of International Trade and Industry (MITI)
- The Export-Import Bank of Japan (EXIM Bank)
- The Overseas Economic Cooperation Fund (OECF)
- Japan External Trade Organization (JETRO)
- Japan International Cooperation Agency (JICA)
- Japan Consulting Institute (JCI)
- The Small Business Finance Corporation (SBFC)
- Japan International Development Organization (JAIOD)
The result of this ferment is a diverse program available to Japanese investors, backed by substantial government resources. Programs are lodged for the most part in agencies that administer Japan's foreign aid programs. The following discussion concentrates on the eight most prominent programs and discusses the promotion instruments used, their organization, and the resources employed.19

INVESTMENT PROMOTION PROGRAMS. Japanese programs include all of the instruments described in Chapter 2 that industrial countries have used to promote private foreign investments in developing countries (Table 2). None of the agencies offer all of the services, yet there is substantial overlap in types of services offered by individual promotion agencies, particularly in the area of information and feasibility study support services, which most of the agencies offer. Relatively few agencies, however, offer sector studies and partner-search services. Ultimately, investors are left to their own devices to piece together desired services from various agencies to meet specific project resource needs.

The program of the Small Business Finance Corporation is set up solely to meet the needs of SMEs. JETRO may also provide services to SMEs, and the EXIM Bank’s promotional programs give them special emphasis. However, other agencies provide services to larger firms because, in the context of Japan’s industrial structure, successfully targeted investment promotion programs to large firms should have trickle-down effects benefitting SMEs. This occurs as a consequence of the extensive vertical integration of Japanese industries and the role smaller firms play as supplier/vendor to larger multinationals.

Japan’s investment promotion programs tend to be concentrated on the countries of Asia, although Latin America has gained a limited place. These preferences reflect the interests of investors in these regions as a result of historical and cultural ties, proximity, and past trading activities, as well as the focus of Japanese development assistance. While industry-specific targeting does not seem to exist, a noticeable parallel can be drawn between program agendas at the agency level and the development interests of MITI. For example, in the oil and minerals sector, MITI has sponsored through the Japan National Oil Corporation, extensive studies and equity participation for oil development projects.

ORGANIZATION WITHIN THE GOVERNMENT STRUCTURE. The various agencies that administer investment promotion programs are supervised in different ways by MITI, MOF, and MOFA. These affiliations are shown in Figure 1.

19 Other agencies include the Japan-China Economic Association and the ASEAN Promotion Center on Trade, Investment and Tourism. The Middle East Center and the Trade Association with Eastern European countries are funded by private sources.
Table 2. Japanese official agencies promoting outward foreign investment

<table>
<thead>
<tr>
<th>Characteristic of agency</th>
<th>Main Activity</th>
<th>Eligibility Criteria</th>
<th>Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ea/P</td>
<td>P/TP</td>
<td>La/P</td>
</tr>
<tr>
<td>Information Service</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Promotion Missions</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Seminar</td>
<td>A</td>
<td>NA</td>
<td>A</td>
</tr>
<tr>
<td>Sector Studies</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Pre F/S Support</td>
<td>A</td>
<td>A</td>
<td>A/TP</td>
</tr>
<tr>
<td>F/S Support</td>
<td>A</td>
<td>NA</td>
<td>A</td>
</tr>
<tr>
<td>Partner Identification</td>
<td>NA</td>
<td>NA</td>
<td>A/TP</td>
</tr>
<tr>
<td>Financial Assistance</td>
<td>A</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Legal/Contract/Technical Assistance</td>
<td>A</td>
<td>A</td>
<td>A/TP</td>
</tr>
</tbody>
</table>

*Main Activity:
- E Equity participation in private sector projects
  - a) in developing countries only
  - b) in both developing and industrialized countries
- P Investment promotion (information service)
- I Indirectly through financial support to JETRO, JICA, OECF, SBFC, and other agencies.
- F Frequent participant in seminars to present papers.
- L Project loans
  - a) in developing countries only
  - b) in both developing and industrialized countries
- TP Third party nonparticipant providing information.

*Eligibility Criteria:
- J Japanese firms
- M Member companies
- LG/SME Company size: (Large/SME)
- NR No requirement

** JAIDO: 29% private/71% government-owned
Figure 1. Relationship between ministries and respective government agencies promoting Japan's foreign direct investment in developing countries
Each of these ministries has had an interest in developing contacts with the Japanese private sector and in promoting private-sector involvement in developing countries. Hence, each ministry has encouraged affiliated institutions to develop private-sector programs to serve the needs of Japanese investors. It is for this reason that there has been such a proliferation of programs, with the resulting overlap in functions.

With the establishment of JAIDO, the private sector has become involved with the government in promotion programs. OECF and 100 founding firms have all contributed to JAIDO's capital. The mandate of JAIDO is both to provide equity financing to projects in developing countries that involve its member firms and to promote such investment through seminars, partner search, and assistance with feasibility study funding.

With the establishment of JAIDO, the government continues to design innovative promotional institutions and programs. At present it is clear that no demarcation of responsibility has been agreed upon by the different ministries involved in promotional activities. Rationalization of the structure and functions of future programs will depend on a clearer division of functions among sponsoring ministries.

RESOURCES. For most agencies, investment promotion continues to be a minor component of their overall agenda. Because financial resources for promotion are buried in the budgets of other umbrella programs, accurate accounting of direct financial outlay for investment promotion programs will be difficult until stand-alone departments are created to directly service private sector firms. What is clear, however, are the means by which funding is, in part, generated. Financial support for promotional programs comes in the form of overseas development assistance, internal funding mechanisms (OECF, SBFC, EXIM Bank), and institutional membership (JCI, JAIDO, SBFC).

The exact number of professionals designated for promotional efforts is also difficult to calculate, particularly since staff involved in these activities often have several responsibilities within their organizations. Nevertheless, on average, each agency devotes anywhere from ten to fifteen people to work directly with private sector firms on investment promotion efforts.

A characteristic of human resource allocation among some of the Japanese promotional agencies is that many of those working directly in investment promotion areas are not permanent staff members of the agency, but there on temporary assignment from a ministry. The Japan International Development Organization is somewhat unique in that many JAIDO staff members are on two- to three-year assignments from private sector firms. In JAIDO, seconded staff from trading companies account for 35 percent of all staff, thereby forming the single most influential interest group in this organization. Conversely, in the case of the EXIM Bank of Japan, all staff members in charge of investment promotion are permanent.
SUMMARY. In summary, four features characterize the Japanese investment promotion programs:

- Japanese investors have access to a large number of promotional agencies to assist them in their investment projects abroad. In addition to the eight agencies reviewed here, other smaller investment promotion agencies cater to investors in more narrowly defined market niches. There is also assistance from private sources, notably the trading companies.

- There is a wide range of investment promotion services available through the various Japanese promotional agencies, but these services also are dispersed. None of the Japanese agencies currently offer a complete range of promotion services, and investors have to mix-and-match the services required to fill their needs.

- Some programs emphasize assistance to SMEs while several others are open to larger firms. The vertical organizational structure of Japanese industries provides a trickle-down mechanism for redistributing resources from large trading and manufacturing firms to SMEs.

- Unlike promotional programs in other industrial countries, professional staff of several Japanese promotional agencies consist of seconded staff from a broad range of private sector firms and ministries. Managers from competing firms collaborate under JAIDO’s auspices to promote foreign direct investment in developing countries while at the same time representing their own firms’ interest within the agency.

United States

The U.S. approach differs from that of most other industrial countries in that it emphasizes support to the development of LDC capabilities, rather than promotional services by the U.S. government to encourage U.S. firms to invest in developing countries. Direct support by the government to U.S. investors is relatively modest, especially in relation to the large volume of U.S. foreign direct investment. In the absence of any comprehensive or integrated program in the United States to encourage direct investment in developing countries, existing services are divided among several agencies—primarily OPIC and USAID, and to a lesser extent the Trade and Development Program and Department of Commerce. Besides official agencies, other organizations

\[20\] The agencies visited for the survey include:
- United States Agency for International Development (USAID)
- Overseas Private Investment Corporation (OPIC)
- Trade and Development Program (TDP)
- Department of Commerce (USDC)
with private sector links, such as the U.S. Chamber of Commerce or the International Executive Service Corps, may also play a role in investment promotion. Table 3 spells out in more detail the types of programs available from the various agencies.

Table 3. The United States foreign direct investment promotion services

<table>
<thead>
<tr>
<th>United States Agency for International Development (USAID)</th>
<th>Overseas Private Investment Corporation (OPIC)</th>
<th>Trade and Development Program (TDP)</th>
<th>United States Department of Commerce (USDC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Data Bank</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Country Information</td>
<td>NF</td>
<td>A</td>
<td>NF</td>
</tr>
<tr>
<td>Counseling</td>
<td>A</td>
<td>A</td>
<td>NA</td>
</tr>
<tr>
<td>Feasibility Studies</td>
<td>SP</td>
<td>D</td>
<td>NA</td>
</tr>
<tr>
<td>Matchmaking</td>
<td>SP</td>
<td>A</td>
<td>NA</td>
</tr>
<tr>
<td>Missions</td>
<td>A</td>
<td>NA</td>
<td>CS</td>
</tr>
<tr>
<td>Sector Promotion</td>
<td>SP</td>
<td>L</td>
<td>NA</td>
</tr>
<tr>
<td>Seminars</td>
<td>CS</td>
<td>A</td>
<td>CS</td>
</tr>
</tbody>
</table>

A  Available.
NA  Not available.
NF  No formal information service.
CS  May cosponsor with other agencies.
D  Discontinued.
SP  Support under specific programs.
L  Limited program.

U.S. promotional programs do nevertheless encompass innovative approaches and techniques. Besides the support the United States provides to build up the domestic capabilities of developing countries to attract foreign direct investment, a number of USAID Trade and Investment Programs experiment with different types of contractual intermediaries. OPIC has used telemisions and video conferences to acquaint firms with the environment and opportunities in selected developing countries.

U.S. promotional programs have a strong development focus, with the bulk of activities carried out through various USAID programs. OPIC's program is also largely developmental and focuses on investment projects in the least developed countries, although projects must be consistent with U.S. balance of payments and employment objectives. TDP support is conditional not only on the development content of the projects, but also on their demonstrable positive impact on future U.S. exports.

Although, in general, U.S. programs have no formal requirements about the size of companies that may be eligible for promotional assistance, OPIC's services are designed to assist mainly SMEs. Support for feasibility studies, which was provided by OPIC until 1986, offered more favorable terms for SMEs than for large companies.
The geographic scope of U.S. programs is more diversified than that of a number of OECD countries whose programs tend to focus on specific regions or countries (for example, Japan in Asia and France in Africa).

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT. Among U.S. agencies, USAID clearly dominates the scene in terms of resources allocated to promotional activities. USAID programs are mainly carried out under its Private Enterprise Bureau and country Trade and Investment Programs, which provide a diversified range of investment promotion instruments. Since USAID is very decentralized, USAID missions abroad play a major role in the design and management of Trade and Investment Programs.

As mentioned, U.S. development programs as administered by USAID have traditionally emphasized the development of domestic capabilities in developing countries, particularly through policy and institutional reforms. In Africa, for example, the Office of Market Development and Investment (AFR/MDI), a unit of the Africa Bureau, focuses on identification of business bottlenecks, promotion of financial markets and credits, venture capital, debt conversions, privatization, informal markets, export processing zones, etc. It has supported the development of promotional institutions in several African countries (Kenya and Guinea in particular).

Institution-building support is common to all regions. As a technique for achieving investment promotion objectives, institutional development includes such activities as technical assistance, support for program budgets, equipment, etc. LDC institutions thus supported include public sector investment/export promotion institutions and regulatory agencies, and also local business organizations. A number of governments have received support to establish or strengthen their investment/export promotion agencies and strategies—in Latin America and the Caribbean alone, Costa Rica received $3,500,000 in 1988 to strengthen CINDE (Costa Rica's promotional agency) as part of a continuing program to develop Costa Rica's investment promotion strategy. The program also includes the creation of representative offices in the United States, Europe, and Asia. Haiti received assistance of $7.7 million over a four-year period to establish PROMINEX, the export and investment promotion center, and support was also provided to the Jamaica National Investment Promotion Ltd. (JNIP) and to business associations in El Salvador. In other regions, USAID has assisted the establishment of the U.S.-Bangladesh Business Association, for example. In Egypt and Turkey, it has supported the creation of promotional offices based in private sector agencies. In the Philippines, a very large feasibility study program ($25 million) has been established to identify and encourage foreign direct investment.

USAID programs have been innovative in the contractual use of brokers such as law firms, universities, and consultants to assist in matchmaking and establishment of joint ventures with domestic companies. Besides its Trade and Investment Programs, USAID also provides support for a broad range of promotional activities such as the cosponsorship of investment seminars, missions, and conferences—for example, the Annual Miami Conference on Investment and Trade Development in the Caribbean.
OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC). OPIC's mandate is to encourage U.S. investment in developing countries through two main instruments: direct loans and loan guarantees, and political risk insurance. Until 1986, OPIC's Investment Encouragement Program supported feasibility studies; reconnaissance surveys (taking U.S. companies for first-time visits to developing countries); training activity loans for technology transfer in connection with OPIC-assisted projects; and grants to nonprofit organizations that would facilitate U.S. foreign direct investment in developing countries. These services were discontinued in 1986 because of budget cutbacks.

OPIC promotional activities include the organization of investment missions (four to five a year) for prospective U.S. investors. The corporation has tried to systematize its information services to facilitate contacts between U.S. SMEs and LDC project sponsors. Its information service maintains two data files: a U.S. company file with a listing of about 2,000 potential U.S. investors; and a foreign investment project file with more than 3,000 investment project proposals. Computer searches are provided for a modest fee. The service also provides U.S. investors with country/regional kits containing basic information about particular areas and their business environments. The kits contain publications of other U.S. government agencies. Occasionally, OPIC cosponsors investment seminars, and in the early 1980s conducted a few teleconferences and telemissions.

THE TRADE AND DEVELOPMENT PROGRAM. The TDP has the dual mandate to assist the economic development of developing countries and promote U.S. exports to these countries. Its promotional support is limited to cost-sharing feasibility studies with U.S. investors for projects responding to the program development and trade objectives; in FY89, the program assisted three feasibility studies.

U.S. DEPARTMENT OF COMMERCE, INTERNATIONAL TRADE ADMINISTRATION. As part of its mandate to promote U.S. exports, the U.S. Department of Commerce, International Trade Administration (USDC-ITA) provides some services related to the promotion of U.S. investment, such as participation in world fairs and international expositions and analysis of country investment and trade climate. Under the Caribbean Basin Initiative (CBI), USDC and USAID cosponsor the publication of the CBI Business Bulletin and the Caribbean Basin Exporters' Guidebook. USDC-ITA also carries out CBI investment surveys and Caribbean product exhibitions in the United States.

SCOPE AND USE OF THE U.S. PROGRAM. USAID has a substantial support program for the development of investment promotion institutions and programs in developing countries. From fragmentary data available, it has been estimated that as much as $30 to $40 million per year is allocated to these programs. In some countries, USAID support for promotional programs is a substantial portion of the total aid program. In Guatemala, export and investment promotion support for FY88-FY89 represented 21 percent of the total USAID private sector development support, in the Dominican Republic nearly 32 percent, in Costa Rica nearly 23 percent, and in Bolivia nearly 17 percent.
Other aspects of the U.S. promotional program have been more modest, since OPIC's support for feasibility studies ended in 1986. In the last few years of that program, about fifty studies were supported per year. From 1981 to 1986, about 90 percent of these studies were for small businesses; about 10 percent of those were followed by actual investments. This is a ratio found in most of the programs of industrial countries that support feasibility studies.

B. Promotional programs of multilateral organizations

An increasing number of multilateral organizations have developed programs to promote foreign direct investment in developing countries. UNIDO was one of the first to develop such a program; MIGA was the most recent. For some multilateral organizations, investment promotion is just one of many activities (UNIDO, EC Commission, the International Trade Center). For others, such as MIGA and IFC, investment promotion is one of the most important reasons for their existence. Table 4 gives an overview of the investment promotion programs of selected multilateral organizations; some of which are described in more detail in this section.

Table 4. Selected multilateral schemes--foreign direct investment services

<table>
<thead>
<tr>
<th>Agencies</th>
<th>Information</th>
<th>Matchmaking</th>
<th>Mission</th>
<th>Sectoral</th>
<th>Feasibility Studies</th>
<th>Project Devlp. &amp; Start</th>
<th>Equity</th>
<th>Loan</th>
<th>Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC-CDI</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>L</td>
<td>A</td>
<td>L</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>EC-IIP</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>NA</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>NA</td>
</tr>
<tr>
<td>IFC</td>
<td>A</td>
<td>A</td>
<td>NA</td>
<td>A</td>
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<tr>
<td>ITC</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>L</td>
<td>L</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>MIGA</td>
<td>A</td>
<td>A</td>
<td>NA</td>
<td>A</td>
<td>NA</td>
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<td>NA</td>
<td>A</td>
</tr>
<tr>
<td>UNIDO</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>L</td>
<td>L</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

A: Available.
NA: Not available.
L: Limited assistance.

EC-CDI: European Community, Centre for the Development of Industry.
EC-IIP: European Community, International Investment Partners.
ITC: International Trade Center (GATT-UNCTAD).
MIGA: Multilateral Investment Guarantee Agency.
European Community programs

The European Community has two main facilities for FDI promotion in developing countries: the Centre for the Development of Industry (CDI), in charge of promoting industrial partnership between EC member countries and African, Caribbean and Pacific (ACP) countries, and the recently established International Investment Partners, geared to countries in Asia, Latin America, and the Mediterranean.

The CDI promotion scheme, created in 1977 under the first EC-ACP Lomé Convention, is similar in concept to that of the UNIDO Industrial Investment program described below. The center’s geographic scope is geared to the sixty-six ACP countries. In operational style, the CDI program has more flexibility than UNIDO’s to respond to the needs of project sponsors. Project proposals may be forwarded directly to the CDI by ACP country promoters, instead of passing through government channels as is the case with UNIDO. In principle, the CDI offers assistance only to public or private ACP-based promoters, but EC technical or investment partners may also benefit from assistance CDI provides in response to requests initiated by their ACP partners.

The EC-HP (which is different in concept) was established in 1988 as a three-year pilot project to promote EC industrial partnership through direct investment to transfer technology and know-how, and to facilitate access to the European market from thirty-six countries of Asia, Latin America, and the Mediterranean. The EC-IIP program emphasizes medium-sized projects ($1-10 million) involving joint ventures between SMEs. In contrast to the EC-CDI or the UNIDO Industrial Investment Program, the EC-IIP facility includes project financing and also emphasizes project preparation and support. The EC-IIP is based on the following principles:

- **Complementarity.** The EC-IIP complements existing institutions and facilities to promote investment projects and relies on the expertise and participation of these institutions.

- **Indirect intervention through financial intermediaries.** The EC-IIP operates through a number of framework agreements with financial institutions from EC countries and developing countries. Enterprises have no direct access to EC funding but must present their applications through one of the network institutions, which is required to match the amount provided by the EC-IIP in the project financing.

- **Simplified procedures.** Decisions on applications for financial assistance are provided within twenty working days by a very small staff in the EC Commission.

The EC-IIP link to other financial institutions brings their technical and financial expertise to bear in project selection. It allows a significant degree of risk-sharing, and the indirect form of intervention makes it possible to hold down administrative costs. The EC-IIP provides support for four main types of activities:
• **Project and partner identification.** The EC-IIP provides non-reimbursable grants to financial institutions, chambers of commerce, professional associations, and public agencies (but not individual project sponsors) to identify (a) countries and sectors with investment potential, (b) EC firms having the technology and financial resources to engage in joint ventures, and (c) local firms that are suitable candidates to be joint venture partners with European investors.

• **Pre-financing activities.** Through the financial institution, the EC-IIP provides an interest-free loan to the project sponsor for pre-financing activities such as marketing, feasibility studies, setup of pilot production units, and prototype manufacture. The loan must be repaid if the project is implemented, or it may be transformed at project start-up into an equity participation or a loan with equity features.

• **Financing of capital requirements.** Either equity or loans are provided to the joint venture via the financial institution to support the establishment of a new joint venture or the expansion of an existing one by providing part of its capital requirements.

• **Training and management expertise.** IIP assists the joint venture via the financial institution to support the establishment or expansion of new joint ventures. Support options include technical assistance through staff and management training (including training of local technicians and managers), consulting services, and sending a European executive to take part in the management of the joint venture. Table 5 summarizes EC-IIP services.

From June 1988 to July 1990, the EC-IIP had concluded a total of thirty-seven agreements with financial institutions, including five in Latin America, five in Asia, and three with multilateral institutions (the IFC, the Asean Finance Corporation, and the IDB). In all, 148 requests for project assistance were received; of those, 104 projects were approved by the Commission's Interservices Steering Committee. Projects covered a wide variety of sectors, including textiles, automobiles, renewable energy, water purification, furniture manufacturing, agro-industry, fisheries, chemicals, finance, and tourism. Total financial assistance represented ECU 9,125,829 and grants for partner and partners identification amounted to ECU 1,581,278.
### Table 5. EC International investment partners

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<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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</thead>
<tbody>
<tr>
<td><strong>Type of operation</strong></td>
<td>Identification of potential projects and partners</td>
<td>Operations prior to launching a joint venture</td>
<td>Financing of capital requirements</td>
<td>Training and management expertise</td>
</tr>
<tr>
<td><strong>Eligibility</strong></td>
<td>Only for financial institutions, chambers of commerce, professional associations and public agencies, and not for individual investment project firms.</td>
<td>For firms, either individually or jointly, local or European, wishing to undertake a joint venture investment project.</td>
<td>For joint ventures established by partners from EC from the eligible countries. The European sponsor must have or take an equity holding of at least 10% of the joint ventures' capital.</td>
<td>For joint ventures established by partners from EC from the countries eligible for the scheme.</td>
</tr>
<tr>
<td><strong>Type of finance</strong></td>
<td>Grant</td>
<td>Interest-free advance</td>
<td>Equity holding or equity loan</td>
<td>Equity loan</td>
</tr>
<tr>
<td><strong>Amount available</strong></td>
<td>Up to 50% of cost</td>
<td>Up to 50% of cost</td>
<td>20% of capital of joint venture</td>
<td>Up to 50% of cost</td>
</tr>
<tr>
<td><strong>Financial limits</strong></td>
<td>Ceiling of ECU 100,000</td>
<td>Ceiling of ECU 250,000. Upper limit for this facility together with facilities</td>
<td>Ceiling of ECU 500,000. Upper limit for this facility together with facilities</td>
<td>Ceiling of ECU 250,000. Upper limit for this facility together with facilities</td>
</tr>
<tr>
<td></td>
<td>Ceiling of ECU 500,000 per investment project.</td>
<td>Ceiling of ECU 2 &amp; 4 is ECU 500,000 per investment project.</td>
<td>Ceiling of ECU 2 &amp; 3 is ECU 500,000 per investment project.</td>
<td>Ceiling of ECU 2 &amp; 3 is ECU 500,000 per investment project.</td>
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The International Trade Center was created in 1966 as a joint subsidiary of GATT and UNCTAD, a status which provides it with a high degree of autonomy and flexibility. ITC's basic mandate is to help developing countries promote their nontraditional and selected primary commodities exports and to improve their import operations. However, in response to a growing number of LDC requests for assistance to set up joint ventures, ITC has in recent years begun to play a role in the promotion of export-oriented joint ventures, especially for SMEs. ITC notes:

"Export promotion can no longer be defined in narrow terms as comprising activities to find marketing channels and deal with export facilitation issues, important as they are. Development of new products or modifications to existing products to reach new markets has become an integral part of the process of export development. This implies specific attention to generate export supply from developing countries in a carefully focused manner. The thrust of the "enterprise-oriented approach" initiated in ITC recently is to precisely address this issue."21

In 1986, ITC initiated a pilot project to promote export-oriented joint ventures in two countries—Malaysia and India. Two industries with export potential were identified in each country: light engineering and leather goods sectors for India, and light engineering and resource-based manufacturing for Malaysia. A small group of companies with expansion potential was identified in each country and industry by a local agency or industry association with wide industry contacts. The final selection was made by specialized consultants to ITC, based on an assessment of project viability.

Specialized consultants then identified two or three potential partners in Europe for each developing country company, and ITC arranged bilateral meetings between the developing country and European companies. In these meetings, the companies would try to reach agreement on the structure of a joint project; if an agreement could not be reached with the first European company, ITC arranged a meeting with the second or third.

ITC's strategy for the promotion of export-oriented joint ventures thus is characterized by a "direct company contact" approach and by individualized promotional assistance. Careful selection of LDC prospects is fundamental for the success of the process. Criteria include (a) the identification of the specific joint-venture needs of the company, (b) its financial and management ability, (c) project viability, (d) company size, and (e) company performance in the domestic market.

Selection of potential partners in industrial countries relies mainly on industry chambers, industry associations, or knowledgeable individuals. After initial contacts through telephone and letters have detected interest on the part of an industrial country firm, the final identification of potential partners—usually two or three for each LDC

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company—is achieved through personal visits to ensure compatibility and elicit specific interest.

Subsequently, arrangements are made to exchange relevant information between the LDC company and potential partners to prepare for a bilateral meeting. ITC remarks that when the companies have been properly identified, their needs specified, and information exchanged between them, preliminary agreement on initiating a joint venture is frequently reached.

The findings of a workshop evaluation conducted by ITC in December 1986 suggested that this pilot project was successful. The evaluation indicated, in particular, that ITC selection of companies in developing and industrialized countries was done with due regard for complementarity of needs in the area of export-oriented joint ventures. The methodology based on direct company contact proved effective: initial bilateral meetings resulted in agreement for export-oriented joint ventures in five out of six cases in the light engineering and manufacturing sector and, at least initially, long-term marketing tie-ups in six out of seven units in the leather sector.

Based on this experience, ITC expanded the project to include five Asian countries: India, Malaysia, Thailand, Sri Lanka, and the Philippines. The objective is to assist over 100 selected companies in engineering goods, agro-based products, and consumer product sectors to find appropriate joint-venture partners in Europe and possibly in the United States. In 1989, ITC launched a regional project to promote Latin American joint ventures and export-oriented investment with Spain, and similar projects are being prepared for Africa and several subregions.

In conjunction with its investment promotion program, the ITC has established an Office for the Promotion of Export-oriented Joint Ventures in Zurich with funding from the Swiss Government. The office, which became fully operational in late 1987, works with the ITC headquarters as well as with UNIDO’s Investment Promotion Service in Zurich. It helps identify interested and appropriate firms—primarily in Switzerland—to join hands with identified companies in project countries. If funding is made available, similar offices may be opened in Europe and North America.

**UNIDO Industrial Investment Program**

The UNIDO-IIP was developed soon after the creation of UNIDO in the mid 1960s and was one of the first multilateral investment promotion schemes to be established. The program, which has no formal criteria as regards size or nationality of firms, emphasizes the formation of business partnerships, especially joint ventures, with SMEs for projects having a clear economic development objective.

Project identification and matchmaking are the main instruments of UNIDO promotion. In this regard, the approach differs from that of other bilateral and multilateral promotion programs, which generally provide a wider range of services to investors. UNIDO distinguishes seven phases in the investment promotion process, with some projects requiring assistance at every stage and others at specific stages only. These phases are the following:
• Identifying project ideas, partnership opportunities, and serious local sponsors in developing countries;

• Collecting basic information on these ideas and opportunities and assessing their commercial viability, as well as the abilities and resources of potential project sponsors;

• Seeking a foreign partner able to supply the required inputs;

• Bringing the prospective partners into direct contact;

• Identifying a suitable financing institution, if necessary;

• Helping complete the preparation of pre-investment studies; and

• Assisting in the negotiation of the agreement between the partners leading to the establishment and operation of the production facility.

Main Promotion Techniques. Of these seven steps, UNIDO-IIP focuses mainly on identifying projects and bringing partners together (i.e., matchmaking). Projects are identified through various means: for example, UNIDO staff may identify projects during missions to developing countries within the framework of industrial investment programs; consultants are hired to identify projects and prepare files for UNIDO’s investors forums; and projects may also be submitted directly to UNIDO headquarters or to the offices of the Investment Promotion Services in industrialized countries. In addition, project information may be obtained through financial institutions and counterpart agencies of UNIDO.

The IPS offices are a key feature of UNIDO’s promotional approach and represent a decentralized form of investment promotion. The IPS consists of a network of offices located in Cologne, Milan, Paris, Seoul, Tokyo, Vienna, Warsaw, Washington, and Zurich; UNIDO also has a cooperation agreement with KOPINT in Budapest. These offices are funded mainly by the host country governments but are managed operationally from UNIDO headquarters.

The role of IPS offices is to establish contacts with local enterprises that are interested in business partnerships in developing countries; to inform these enterprises about LDC business conditions, potential business partnership opportunities, and sectors of interest; and to help the potential partners make contact and negotiate the agreements for project implementation. The offices gather information on investment project opportunities that is generated by UNIDO through its work in developing countries and by other sources

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22 KOPINT (Konjuktúra, Piackutató és informatikai intézet).
directly. The IPS then tries to find local investors who might be interested in pursuing these opportunities.\textsuperscript{23}

*Investment information* is maintained in the computerized files of the Investment Promotion Resources Information Systems, which contain the following:

- *Potential foreign partners* file information on enterprises interested in business cooperation in developing countries.
- *Investment project file* includes investment projects identified by IIP staff members and consultants during missions to developing countries or submitted by local project sponsors.
- *Financial facilities/institutions and the counterpart institution files* institutions promoting investment projects in developing countries.
- *Developing country investors file* records of LDC investors, obtained as part of the process of project identification and formulation.

**OTHER PROMOTION INSTRUMENTS.** A UNIDO Investors Forum is a large-scale meeting held over several days that takes place in a developing country. Such forums are sometimes restricted to a particular sector (e.g., electronics, agro-industry). The forums bring together potential investors from industrial and developing countries to discuss potential investment projects that have been identified beforehand. The hope and expectation is that through such discussion partnerships will be formed to pursue either the pre-identified projects or others identified during the course of discussions. UNIDO organizes about four of these events a year in developing countries.

The Delegates Program is a UNIDO effort to help developing countries build their own promotional capability. To this end, the IPS offices have developed a program to host individuals (delegates) from developing countries for periods from three months to three years. During this time the delegates receive training in investment promotion techniques, which they then apply to firms in the developed country as a way to interest them in projects that have been identified in the home country. A delegate may be associated with a home-country promotional program, in which case the IPS office becomes an overseas office for the developing country's program.

Each year IPS offices organize about forty country presentation tours in their host countries for government officials and LDC business delegations. These delegations contact potential project partners and provide them with information on investment conditions and opportunities in their home countries. They also may take the opportunity to discuss specific investment projects promoted through the IPS network.

UNIDO also brings entrepreneurs from developing and industrialized countries together in other contexts. An example of such an event was a meeting between some

\textsuperscript{23} Supported by the French Ministry of Cooperation, the UNIDO-IPS Office in France has hosted representatives from the promotion programs of Madagascar and Mauritius.
seventy Chinese project sponsors and German potential technical and financial partners, which UNIDO organized with German financial support on the occasion of the 1987 Hanover Fair.

**ORIENTATION OF THE UNIDO PROGRAM.** In the 1980s, the environment for UNIDO’s investment promotion efforts changed dramatically because most developing countries became more interested in foreign direct investment than they had been in the previous decade. Eastern European member states, previously reserved about UNIDO’s promotional efforts, became more supportive of these activities and, in some cases, even competed to obtain these services for their own countries. This more encouraging environment prompted UNIDO to recommend the following initiatives in its IIP Five-year Orientation Plan for 1990-95:

- *Support LDC investment project identification and promotion capabilities.* One of IIP’s long-term objectives is to help developing countries build their capabilities to carry out all project stages. Initially, project preparation was done almost entirely at the IIP headquarters or by consultants under its direction. Over time, national experts have begun to play a greater role by undertaking the bulk of the preparatory work with only occasional UNIDO guidance. Examples include the project identification and promotion programs in Bolivia and Ecuador, whereby officials of government promotional agencies work side-by-side with national and international experts to develop investment projects they follow from the early stages of formulation through appraisal and acceptance by a financial institution. Egypt, Morocco, and several other countries are now organizing and implementing most of their project identification and promotion activities independently of UNIDO.

- *Expand the scope of UNIDO’s promotional support.* As indicated, current, UNIDO assistance is primarily geared to project identification and matchmaking, although assistance may occasionally be provided for pre-feasibility and feasibility studies in cases where the local investor and prospective foreign partner have decided to implement a project. UNIDO is now attempting to provide support for project preparation to the point where they can be submitted to financing institutions for appraisal if funds have been budgeted for this purpose. The recent experience with the Project Development Facility in the Cologne IPS, which provides support for pre-investment studies to the German and developing country partners, might serve as an example.

- *Emphasize priority industrial sectors.* Positive experience with sectoral programs allowing improved project selection and preparation has inspired UNIDO to expand this approach. One of the programs is being supported by the Government of France and carried out together with IFC. The objective of this program is to identify French agro-industry companies that have technologies suitable for developing countries and are interested in investing
there. Once the companies are identified, the project will help them identify suitable countries for investment and suitable local partners.

- Increase cooperation with trade and industry associations. UNIDO is attempting to develop its cooperation with private sector organizations such as associations of industrialists and chambers of commerce. These groups have proven useful as sources of information on investment opportunities, and as pressure groups to influence government investment policy toward international industrial collaboration.

- Develop matchmaking capabilities. Through the expansion of the IPS Delegates Program and the development of the LDC Investment Officers Program, UNIDO hopes to send young business professionals for one or more years on secondment to LDC industry associations or development banks to help local sponsors develop their projects. These programs will help developing countries set up effective focal points that can contribute to the identification, formulation, and promotion of investment projects.

RESOURCES. The direct UNIDO budget for the investment promotion program is $2.7 million annually, which includes the salaries of IIP staff but little of the cost of the IPS offices; these are funded mainly by host countries. The UNIDO budget also includes headquarters overhead costs, but funds for organizing investment forums may come from other sources such as the cosponsors.

Investment promotion programs in the World Bank Group

INTERNATIONAL FINANCE CORPORATION (IFC). The International Finance Corporation was established in 1956 to encourage private investment, both domestic and foreign, in developing countries. IFC does this mainly by providing loan and equity financing to private sector projects, although in the course of its regular activities, the corporation also provides investment promotion services such as partner identification, technical and financial advice, and project structuring. These services are in addition to its own financial assistance and the financing it mobilizes from other sources.

Only in the late 1970s did IFC develop a separate program to complement the promitional work done in the context of specific financing operations. Since that time, IFC’s promotion efforts have taken several forms; but only in the last four or five years have they begun to focus explicitly on promoting investment by foreign firms. In the earlier years, the emphasis was on facilitating private sector projects more generally, although very often these efforts did involve foreign investors.

During the beginning phase, IFC’s promotion efforts had a country focus and tried to find ways to bring specific project ideas to fruition. This phase involved elements of matchmaking and project development with which IFC tried to find project sponsors, solve problems, and provide funding for worthy project ideas.
These first efforts met with relatively little success, so in the early 1980s, the focus shifted to sector promotion. While using this approach, IFC identified several innovative sectors—poultry processing, shrimp cultivation, floating terminals, and oil exploration—that seemed to offer investment opportunities in a wide range of developing countries. The IFC effort aimed to identify sectoral opportunities in specific countries and bring them to the attention of potential investors. It was hoped that some of the investors would respond by developing concrete projects that IFC could then help to finance. In the case of oil exploration, a specific oil-exploration fund was set up and an IFC unit established to evaluate exploration proposals that came to the corporation as a result of its promotional work.

Although the sector approach had some success in stimulating the development of projects, relatively few outside of oil exploration were large enough to be eligible for IFC financing. The reason was that investment projects were relatively small in the sectors chosen for promotion.

The desire to promote larger projects for IFC financing led to another change in program orientation to focus explicitly on business development among industrial country firms interested in LDC investing. The program still focuses on specific sectors, but they are ones more likely to yield larger projects (chemicals, agro-business, automotive, tourism, electronics, mining, and telecommunications). By visiting LDC firms operating in these sectors, IFC hopes to find incipient projects that it can facilitate through the financial and other means at its disposal.

Among the technical assistance that IFC can give are market studies, sector studies, pre-feasibility and feasibility studies, and assistance in financing pilot plants to test industrial processes. Such assistance is made possible by a series of technical assistance trust funds with over $5 million funding from several industrial countries, the EC, and UNDP. The funds are administered by the IFC Engineering Department.

IFC also has devised several new approaches to encourage investment in smaller projects. One of these, a corporate loan to an industrial country firm, allows IFC to finance a number of that company’s separate small investments that would individually be too small for IFC involvement.

The IFC approach to investment promotion thus has evolved into a combination of sector promotion, matchmaking, and project development. Its programs have come to focus more explicitly on promoting direct investment by industrial country firms in developing countries. However, IFC remains committed to encouraging all forms of direct investment, and its promotional efforts, as well as its financing, support this broad mandate.

This eclectic approach has had a growing impact: in 1989, for example, the promotion unit identified twenty-five projects that are likely to be appraised by IFC in 1990 or 1991. The strongest results have been in the mining and telecommunications sectors, although

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24 As a separate development, IFC has established project development facilities in the Caribbean (CPDF), Africa (APDF), and now the South Pacific (SPDF) to help local private investors develop project ideas to the point where they can be financed by financial intermediaries, usually not IFC itself.
several corporate loans also are being negotiated with agro-industry companies to finance a series of investments in Africa and in the Caribbean.

**MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA).** The Multilateral Investment Guarantee Agency was established in 1988 as the newest affiliate of the World Bank Group. MIGA’s principal mandate, to enhance the flow of foreign direct investment to its developing member countries through a wide range of support services, is delivered through two distinct, yet supportive and complementary instruments: policy advisory/promotional services and long-term political risk insurance.

MIGA’s promotional services aim to create a dialogue between the international business community and policymakers, as well as with national private investors in developing member countries. To encourage this dialogue, MIGA organizes promotional conferences in developing member countries. These conferences are generally country specific and designed to meet the particular objectives of the country concerned. MIGA selects nontraditional growth sectors to target and then identifies, screens, and selects potential investors—domestic and foreign—to participate. Emphasis is placed on selecting foreign participants from medium-size and up-and-coming firms not only from the developed countries but also from newly open industrialized countries.

Conferences in Ghana (February 1990), Hungary (September 1990), and Jamaica (February 1991) have demonstrated that foreign investors are keen to tap the investment potential in developing countries once they have been made aware of their opportunities. By having the opportunity to meet one-on-one with domestic entrepreneurs, discuss issues of concern with senior government officials, and make personal field visits to domestic enterprises, foreign firms develop a clear and stronger basis on which to make investment decisions.

As a direct result of MIGA’s conferences, several joint ventures have been finalized in agro-processing, fisheries, and electronics. Some of these joint ventures have involved firms from other developing countries, thus achieving an important objective of MIGA: to facilitate investment flows not only from developed to developing countries but also between developing countries themselves.

MIGA’s strength lies in its ability to provide advisory, promotional, and political risk insurance services to member countries as an integrated package and coordinated strategy to attract FDI to developing countries. As MIGA gains increasing business experience in these activities, it will continue to develop and refine its products and services to promote the flow of foreign direct investment.
Evaluation of investment promotion programs

It is clear from the foregoing discussion that industrial countries support a broad array of investment promotion programs through bilateral and multilateral agencies. Although many of the promotion techniques have not fundamentally changed, programs have been evolving and changing over time. In the last few years there has been a substantial amount of experimentation, and a number of new programs have been initiated. It has not been possible to obtain an accurate accounting of the resources employed in these programs. One reason is that such programs are often part of a more comprehensive budget, and costs are not identified separately. Nevertheless, taking into account the fragmentary data available and including both multilateral and bilateral programs, it may be that industrial country governments spend as much as $100-150 million annually to support bilateral and multilateral investment promotion programs.

These amounts suggest that sponsoring countries believe them to be useful in promoting investment in developing countries. Yet, considering the level of expenditures, it is surprising how few evaluations of these programs are generally available. No doubt some evaluations have been done, particularly to support budget requests before parliaments. However, the survey of investment promotion programs conducted for this study turned up no systematic evaluation of these programs.

One reason for the few studies of the effectiveness of promotional techniques is the difficulty of measuring their impact. There is first the difficulty of linking the program results to investments that may take several years to mature. There is also a problem of separating the impact of the promotional programs from the other factors that influence investment decisions. For these and other reasons, many agencies have been reluctant to initiate studies of program impact.²⁵

Investment promotion programs can make a difference in the amount and character of FDI that flows to developing countries; however, fragmentary evidence, discussed in Sections B and C that follow, suggests that some programs are ineffective and that the design and administration of others could be improved. It is on the basis of these evaluations that some suggestions for improving these programs are made in Chapter 5.

²⁵ In fact, that impact may be broader than the number of specific projects that can be linked to promotional activities over a relatively short timeframe. The broader effects will certainly include an increased knowledge of developing countries on the part of the business communities of industrial countries, which could lead in future years to much greater interaction.
A. Value of promotional programs

Market imperfections, as noted earlier, form the basic rationale for public programs to promote FDI in developing countries. It is thought that information about investment opportunities in unfamiliar environments is either unavailable to outside investors or too difficult to find under normal circumstances. Moreover, it is expected that foreign investors are unwilling to search out information because they overestimate risks in developing countries. For these reasons, foreign investment is thought to be below levels that would be warranted on grounds both of real profitability and of the benefits such investments would convey to the host developing countries.

It is sometimes thought that the factors retarding FDI are particularly acute for smaller firms in industrial countries because they have less capacity than larger firms to search for information. Smaller firms also may have less experience with international business and thus be more prone to overestimate risk in foreign environments. For these reasons, many of the industrial country programs are targeted to SMEs.

The need for promotional expenditures is bolstered by what is known about investment decision processes. Interview studies of foreign investment decisions show that even the largest firms do not systematically search the environment for investment opportunities. Rather, such a search is often a response to problems and other stimuli from the external environment. While firms follow strategies that can include foreign involvements, these strategies are usually shaped within a narrow range of options. As a result, it has been well documented that foreign investors tend to exhibit follow-the-leader behavior. That is, they respond to the actions of competitors rather than acting as independent decisionmakers searching the environment for investment opportunities.

In these circumstances, promotional activities may have an impact on a firm's decisions. There will be opportunities unidentified and countries uninvestigated because there has been no significant reason to do so. Promotional activities can provide that reason by introducing new information into the bureaucratic processes of firms, forcing them to enlarge the set of options considered.

Firms do respond to all kinds of marketing initiatives. For example, there are well developed industrial marketing techniques that some firms use to sell industrial equipment to other firms. The selling firms do not wait for the buying firms to search out their products, but rather supply different types of information that are most effective at influencing decisions at different stages of the decision process. The firm attempting to sell equipment needs to provide the information as part of its marketing effort.

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26 One of the earliest of these studies appears in Aharoni, Y. 1966. *The Foreign Investment Decision Process*. Boston: Harvard University, Graduate School of Business.


As with sales of industrial equipment, investment promotion programs can influence foreign firms to invest in developing countries and a number of host countries, including Ireland and Singapore, have done this successfully. These and other developing countries have used a series of promotional techniques to induce firms, which otherwise would not have considered investing, to investigate the possibilities and ultimately make investments. The success of these host country programs demonstrates that properly structured promotional programs can have a positive impact on investment flows.

While there is reason to believe that investment promotion programs can induce greater flows of direct investment, there is less reason to believe that the specific programs supported by the industrial countries are as effective as they might be. The suspicion that these programs can be substantially improved is based on fragmentary evidence from the programs themselves, as well as on an assessment of their content and administration made in the course of this study.

B. Content of promotional programs

Investment promotion programs encompass six types of activities: (1) provision of general information; (2) investment missions; (3) various matchmaking activities; (4) sector promotion; (5) support for feasibility studies; and (6) support for project development and start-up. Taken together, these activities can provide support at all stages of the investment decision process. Yet, in both design and execution these programs often fall short of their promise.

**GENERAL INFORMATION SERVICES** can be one of the most important and productive of the investment promotional programs. By providing accurate information on the main parameters of the LDC economy, cost factors in the country, the legal framework for investment, and the bureaucratic processes required, it is possible to greatly reduce the perception of risk in the minds of potential investors, at least in those countries where there is, in fact, a good story to tell. Even in less favorable circumstances, the perception of having accurate information will prevent decisionmakers from overestimating the risks.

The best *host* country promotional programs place great stress on providing potential investors with accurate information. This being so, it is surprising that the programs of industrial countries place relatively little stress on providing accurate and timely information to home-country investors. While all countries have an information service of some kind, most are ad hoc and incomplete. For example, in the survey there was no evidence that any of the agencies concerned with investment promotion could provide potential investors with up-to-date information on investment codes of developing countries.

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29 These promotion programs are described and evaluated in Wells and Wint. *Ibid.*

30 The International Center for the Settlement of Investment Disputes (ICSID), while not an investment promotion agency, does maintain a reasonably up-to-date file on investment laws of about fifty developing countries.
It is not an easy task to maintain timely information on investment conditions in developing countries. Some commercial firms (for example, Business International Corporation and several international accounting firms) attempt to provide some basic information. But changes occur rapidly, and there is little evidence to suggest that the information programs of the industrial countries allocate the resources needed to keep up.

**INVESTMENT MISSIONS** to enable potential investors to learn about a country, investment opportunities, and potential partners are sponsored by virtually all of the industrial countries surveyed. These missions are sometimes general in character, while others are targeted on a few sectors. Usually the missions involve business people from the industrial country visiting a developing country; sometimes, however, business people from the developing country will be brought to make contact with potential investors in the industrial country.

On the basis of their experience with investment missions, most agencies have concluded that the large, general-purpose missions are less useful than more targeted missions. As a result, most agencies have phased out general-purpose missions except where they have more general political purposes. Targeted missions, on the other hand, are thought to be quite useful; OPIC, for example, maintained its program of targeted missions even when budget cuts forced it to curtail most other promotional activities. From 1975 to 1989, OPIC organized fifty missions involving more than 700 companies and 750 individuals. OPIC estimates that sixty-three U.S. participants in missions sponsored in 1982-83 alone invested $500 million in host countries.

FMO (of the Netherlands) and other agencies likewise have maintained and even expanded programs of targeted missions. Yet, these missions are very labor intensive and require intensive preparation on both sides. Participant screening and selection is crucial to exclude those who might be more interested in sightseeing than in actively searching for investment opportunities, and follow-up visits are usually needed within a few months of the initial mission.

As mentioned, reverse missions of business people from developing countries to industrial countries are generally not thought to be very productive. While potential investors from industrial countries are unlikely to make a trip, even with a subsidy, unless they have a real interest in investment, the same investors are likely to take a more passive approach toward a delegation of LDC entrepreneurs visiting them in their home country. This is particularly true when, as is usually the case, there will be no systematic follow-up of the contacts made.

**MATCHMAKING** is a series of techniques that tries to bring together a potential investor in an industrial country with a project in a developing country. Sometimes the project is formulated by the promotional agency or by a consultant hired by the agency. At other times, the agency undertakes to find a potential sponsor in the host country and a partner in the home country. Most often the matchmaking effort aims at establishing a joint venture, but it can also involve linking an investor with a project idea. In a few cases, the promotional agency subcontracts the matchmaking task. Matchmaking can also take place in the context of an "investors' forum."
A few agencies have been satisfied with their matchmaking efforts. The International Trade Center, for example, was sufficiently encouraged by its initial efforts to expand its program, which targets specific industries and countries. Generally, however, there has been some dissatisfaction with the results and a tendency to rethink the programs.

The problem may be in the execution rather than in the overall concept; there is general agreement that programs which formulate projects and then try to interest investors in them have not been successful. No self-respecting investor will be interested in a project that is formulated by a promotional agency or consultant. Moreover, the investor forums do not even seem to get good projects. A review of EC-sponsored forums found that they tend to receive second-rate projects that cannot find support elsewhere:

"Too many of the projects presented to the Forum are insubstantial and ultimately damage the event’s image. The consultants—rightly or wrongly—think that their performance will be judged by the number of projects identified and presented rather than by the quality of those projects. Moreover, they do not have the time nor the necessary resources to undertake more extensive research or screen them more rigorously."

Lack of follow-up is also a problem with investor forums. A review of the EC-sponsored events suggests that as much work is needed after them as before. Evidence suggests that the necessary follow-up was not provided and that the project proposals by European entrepreneurs presented at the fora were left in the air.

It is also recognized that large investors forums have had difficulty attracting bona fide investors. UNIDO, which is one of the main sponsors of such events, has pointed out the difficulty, and is reformulating the concept. One approach is to hold the forums in connection with established gatherings of business people, such as trade fairs, so that more investors will attend.

USAID has been one of the main users of intermediaries to carry out matchmaking activities. Evaluation of this experience shows limited success at significant expense. One problem has been that the firms engaged for this activity are usually compensated regardless of success; moreover, there is no continuity or follow-up after the contract is terminated. Evidence suggests that efforts to promote joint ventures can make effective use of both LDC and home-country intermediaries, but the effort required is frequently long term and would benefit from some degree of institutionalization of the function. To this end, USAID is increasingly looking into using existing business networks like the International Executive Service Corps that are low-cost alternatives, with a vitality of their own and an interest in continuity of effort on a partnership basis for promotional support.

SECTOR PROMOTION PROGRAMS identify investment opportunities in some detail in a specific country and sector, but make no attempt to design projects to exploit these

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opportunities. Instead, the detailed information on the opportunities, together with general suggestions for investments, are presented to carefully targeted firms. It is hoped that the information will lead at least some of the firms to explore further and to design their own projects to exploit the opportunities.

This is a technique that is beginning to gain popularity in the investment promotion programs supported by industrial countries. It is also a technique that has been used by some of the most successful host country agencies. Agencies such as the Industrial Development Authority (IDA) in Ireland, the Economic Development Board (EDB) in Singapore, the Malaysian Industrial Development Authority (MIDA), the Costa Rica Investment Promotion Agency (CINDE), and the Investment Promotion Council (IPC) in the Dominican Republic almost always target their promotion efforts around specific sectors or types of investment. IDA, for example, recently conducted a successful campaign to promote investments in a financial services center. MIDA had a successful campaign to attract foreign investment in the electronics industries to Malaysia in the 1970s. The Dominican Republic has successfully promoted investments for production of footwear and electronic subassemblies and informatics using sectoral techniques.

Only a few of the programs supported by industrial countries have tried to use sectoral-promotion techniques. The recent promotional seminars sponsored by MIGA in Ghana and Hungary are examples of such efforts, and UNIDO is also developing some sectoral programs for specific countries. Some investment missions also have a sector focus, but they usually do not start with identification of opportunities. Finally, some programs centered on specific host countries, such as those sponsored by USAID (for example, CINDE in Costa Rica), have developed a sectorially targeted promotion program.

One of the reasons that most programs supported by industrial countries have not adopted sector-promotion approaches is that these techniques have to focus on a specific country as well as sector. Many of the programs have had difficulty in organizing the combination of sector and country focus with promotion targeted to specific firms. One difficulty in initiating these types of programs has been the inadequate links of the OECD country programs to the host developing countries. Most of the programs reviewed here operate out of the home country, with only tenuous links to the host countries.

**FEASIBILITY STUDY SUPPORT PROGRAMS** are generally thought by the promotional agencies to be useful, and there is a large demand for such support in countries where it is available. UNIDO views a lack of funds to support feasibility studies as an impediment to its investment promotion efforts. France is expanding its recently established program. OPIC has recently sought to reestablish its feasibility study support program but has received authorization from the U.S. Congress only to establish a program for Eastern Europe.

In general, it has been found that one in ten feasibility studies supported by the program result in investment. In order to maintain even this ratio, projects to be supported have to be selected carefully. One element in selection, most agencies find, is to require the potential investor to share in the feasibility study cost. Many countries are
shifting administration of these programs to DFIs in order to use their financial and technical skills to select feasibility studies that have the best chance of success.

Despite their popularity, the real impact of programs to support feasibility studies can be questioned. Once a firm is contemplating a feasibility study, it has already bridged a lot of the uncertainties of a new investment environment. While the availability of funding for a feasibility study may induce the firm to take the next step, it is more likely that most serious investors will be willing to finance the relatively minor costs of a feasibility study; where these costs are not minor, as in complex petrochemical projects, the funding that would be provided by promotional programs would be insignificant in relation to the total. Firms may take the funding for feasibility studies if it is available, but it is nevertheless likely that a good many feasibility studies supported by public programs that do result in investments would have gone ahead without that support.

Support for project development and start-up is even closer to the actual investment than are feasibility studies. As in the case of the studies, it is doubtful whether the availability of such funding will make a difference with respect to whether or not the investment is made. Rather, these types of expenditures may influence the character of the project. For example, by supporting experimentation with process technology, these programs may enable investors to provide technology that is better suited to host country conditions.

It may be concluded that a few of the techniques used, such as certain types of matchmaking, have little impact on investment decisions. But some of the programs, such as those that provide information and help the investor obtain information, can be useful. Virtually all of the programs, however, can be strengthened and restructured to improve their impact.

These conclusions are derived from a view of how investment decisions are made and from fragmented evidence from the programs themselves. Clearly, there is a need for a more thorough evaluation of these programs to determine more concretely the extent to which they help influence FDI in developing countries.

C. Organization of promotional programs

It is not only the content of the promotion programs, but also their organization that determines their chances of having a practical impact on the FDI flow to developing countries. Organization in this context means the number and type of institutions that administer the program, the way they are marketed to potential investors, and the constraints that are imposed on their use. In the course of the survey conducted for this study, evidence suggested that organization of the programs in all these aspects may have reduced their effectiveness.

In a general sense, it is recognized that government organizations are not known for their ability to promote investments. For one thing, they are rarely able to recruit and retain the marketing skills so important to promotional programs. It is for this reason that the most effective investment promotion organizations in host countries are organized as
quasi-government organizations so they can recruit marketing talent. The industrial
country programs will have the same needs, and the government organizations
administering the programs will face the same constraints. Little evidence suggests that
these programs have been able to obtain the kind of talent that is required; some have
sought to obtain the necessary skills by subcontracting to private intermediaries, but these
efforts have had mixed results.

The lack of marketing skills, particularly within the national organizations
administering the promotional programs, reveals itself in the poor quality (or even total
absence) of program publicity directed to the investor communities. It is surprising, for
example, that only one country surveyed (Canada) has produced a complete set of
professionally prepared brochures to inform investors of the available programs. Germany
has a publication that lists all of the programs, but many countries offer only incomplete
and often poorly written and printed materials. In some cases, investors seem to learn of
the programs by word of mouth alone. On the whole, multilateral organizations seem to
do a better job of publicizing their programs than do governments.

The incomplete and fragmented nature of material publicizing available programs often
reflects the fragmentation of the programs themselves among several organizations. Only
one of the major programs, that of Canada, is centralized in one agency. In contrast, the
Japanese program is scattered among seven or eight different agencies: MITI and the
Ministry of Finance each coordinate some of the programs.

Fragmentation and lack of coordination leads to overlapping programs, inadequate
focus, and probably confusion in the investor community. It is difficult to assemble a
package of promotional services when, for example, information services are provided by
one agency and feasibility study support by another. It will be difficult for the sponsoring
country to get the most out of the promotional resources that are being provided when
their use is not coordinated.

It also may be difficult to use promotional resources effectively when the sponsoring
agencies lack the necessary skills to target the resources where they are most needed.
This may be the case in countries where the promotional programs are administered by
foreign affairs ministries as part of their foreign aid programs. Typically, staff of foreign
affairs ministries do not have the business skills to judge good promotional opportunities.
It is for this reason that several European countries have recently shifted the
administration of promotional programs to in-country DFIs.

Policies that limit application of the programs to small- and medium-sized firms and to
the promotion of joint ventures also limit their usefulness. As was discussed in Chapter 2,
large firms also may need some assistance to identify projects in developing countries,
and the host countries could benefit from such projects.

Also of note is that developing countries generally are moving away from a preference
for joint ventures. An increasing number of countries, including those in Eastern Europe,
are accepting wholly owned foreign investments. If this trend continues, industrial

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32 Wells and Wint. Ibid (Chapter 3).
country programs probably should also move away from a fixation on promoting joint ventures.

In evaluating their effectiveness, one final point needs to be stressed about the organization of industrial investment promotion programs: these programs for the most part have only a very tenuous link to the countries they are trying to assist. The programs are directed from the home country, and there is thus very little opportunity to recognize the desires and specific conditions of host countries in the content of the promotional programs. The difficulty of formulating sector promotion programs in specific countries was noted above. Even when they involve specific initiatives, such as a targeted investment promotion mission to a particular country, there are no good mechanisms for incorporating host country objectives and knowledge into the decisionmaking process used to structure the promotion initiative.

Many industrial countries recognize this problem and are taking steps to deal with it. Some countries (for example, Germany and Japan) are beginning to station staff in some developing countries. The United States, of course, has overseas staff in its USAID missions and, as noted, has increasingly emphasized support for host country promotional activities rather than for those administered out of the United States.

Developing countries, meanwhile, are increasingly taking the initiative to establish their own investment promotion programs. In many cases, these initiatives have so far been sporadic missions of government officials and one-shot advertising campaigns. However, in recent years a growing number of developing countries have begun to institutionalize promotional programs, with a professional staff at home and sometimes promotional offices abroad. Examples include Thailand, Indonesia, and the Philippines in Asia; Kenya, Ghana, and Lesotho in Africa; Morocco and Egypt in North Africa; and Hungary in Eastern Europe.

Most of these are fledgling programs struggling to define a strategy and obtain adequate resources. Nevertheless, their existence is beginning to change the objective conditions that must be recognized by the industrial country promotional programs. In particular, these programs may present an opportunity to better mesh industrial promotion programs with host country needs and opportunities.
Improving the promotion programs

Programs of the industrial countries can be improved in a number of ways. Some of these simply amount to improving the administration and organization of existing programs. Others involve changing the program emphasis by deleting generally unproductive activities and adding some that are likely to be more productive in the current environment. Finally, more substantial structural changes are needed that take into account the emergence of investment promotion activities in developing countries. These changes will strengthen the links between industrial and host country programs so as to improve the functioning of both.

A. Administration and organization

No doubt many improvements can be made in the ways these programs are organized and administered. Many organizational and administrative problems probably stem from political factors that may not be obvious to an outside observer. Nevertheless, a few changes that can be made in many of the programs are worth considering—more coordination to provide an integrated service to investors, better targeting of the services that are available, and better publicity for the services.

As noted, many bilateral programs are spread over several organizations in the government structure. Many reasons exist for this organizational diversity, including the historic development of the programs. However, the net result may be confusion within the investor community. To the extent that programs are proactive—trying to get investors to look at new opportunities in developing countries—there may be competition and waste of resources. To the extent that programs are reactive, they may be unable to provide an integrated service and may confuse more than they help to clarify the investment situation.

In countries where these problems arise, it is worth considering more coordination in order to provide an integrated service. This does not necessarily mean that programs must be centralized in one organization, for that may not be feasible or desirable in all countries. It does mean that there must be a clear demarcation of responsibility that avoids duplication yet congregates complementary activities. For example, it is probably desirable to assemble active promotional activities (e.g., field missions, sector promotion) in one place. Investor services also should be in one place so that someone investigating an opportunity need approach only one place to obtain support from his or her government.

A desirable administrative improvement is to increase the capacity of organizations to target their activities in two ways. First, to concentrate on those firms and industries where assistance is likely to be most productive in encouraging investment; and second, to focus promotional activities on investments that will benefit the host developing countries.
Many programs that limit their activities to smaller firms do so in the belief that smaller firms are most in need of promotional assistance. But large firms, while probably not needing assistance in funding feasibility studies, do need to be encouraged to look for opportunities in developing countries. Other company characteristics may be equally relevant in determining the productivity of investment promotion activities. It is desirable for organizations administering promotional programs to think more creatively about this question so as to be sure they use their resources most productively.

In regard to targeting assistance to investors and investments that will benefit the host developing countries, such targeting is done now to some extent by proactive programs that attempt to interest investors in particular developing countries. In most of these cases, some thought is given to the question of whether the activity being promoted is worthwhile for the country concerned. Even in these instances, however, there is little detailed analysis and, thus, a distinct danger of promoting inappropriate activities. For example, in the 1970s there were many examples of investment promotion in import-substituting industries that in developing countries were inefficient.

The idea of screening activities to assure that the resulting investment will be productive in the environment of the host country is not a new one. International institutions such as the International Finance Corporation screen investment projects for both financial and economic viability. Many national development finance corporations do the same. This is done to be sure that the public funds supporting these institutions are used in ways that contribute to the ultimate objective, which is to promote economic development. The same logic would apply to the public funds being used in investment promotion programs.

In order to improve targeting of promotional programs, a number of OECD countries have shifted their administration to their national DFIs, which are thought to have more skill in targeting services on investors that need the service and on investments that are economically and financially viable. While this trend should be encouraged, there is also a danger that the DFIs may promote activities mainly where their financing will be needed. In fact, promotion can degenerate into an effort to find projects for financing by the developing finance institutions. It is necessary to guard against this tendency so that the investment promotion programs do not become merely sources of support for the business development of these institutions.

A final point about the administration of investment promotion programs is the need for more and better publicity. Good publicity seems to be particularly lacking in the service programs (for example, information programs, support for feasibility studies, and project development support). These programs can have a promotional effect only if their existence is known. Yet it is surprising how little publicity is given these programs and how poor is its quality. Improvement is needed here.

B. Program content

Chapter 4 suggests some changes in program emphasis that would be desirable and some types of promotion activities that might be deleted entirely. In the latter category are matchmaking activities that rely on the generation of project ideas by the promotional
agency rather than by the project sponsors. The use of various private sector intermediaries to match potential investors also has not been particularly successful and probably should not be given much prominence. Finally, the value of general investment missions also may be questioned, particularly those that bring developing country business people to the industrial countries.

On the other hand, greater emphasis should be placed on making more and better information available about investment opportunities and conditions in developing countries. All of the best promotional institutions in host countries make a great effort to provide potential investors with extensive, reliable, and current information covering legal conditions for investment, market information, and cost data.

It might be thought that the provision of information would be a low-cost way of helping to promote investments in developing countries, but this is not necessarily true. Substantial resources are needed to collect, screen, and present high-quality information for one developing country, let alone for a substantial number of them. On the other hand, every industrial country does not have to collect information on every developing country; ideally, one agency could collect information on one country and then share with the others, who do the same. By sharing the burden, it should be possible to organize an information collection system that each industrial country then could make available to its own investors.

Sector promotion efforts can build on this general database. The evaluation in Chapter 4 suggests that sector promotion techniques offer some promise for proactive promotion; these techniques, however, are really only the provision of specialized information on investment opportunities and methods for exploiting them. If industrial countries support more sectoral promotion, they will need to have an information base on which to build. They will also need some way to identify the sectors to be promoted. Since government officials in industrial countries are not known for their ability to pick promotion targets, some other means of identifying appropriate sectors will have to be found. This is where a link to the investment promotion programs of host countries may be useful, even essential. Such links are discussed in the following section.

C. Linkages between host- and home-country promotional programs

The emergence of promotional activities in a wide range of developing countries is a new factor that can be taken into account by the industrial country programs. The Asian countries of Indonesia, Malaysia, the Philippines, and Thailand, among others, have instituted or are planning formal investment promotion programs. Ghana, Kenya, Lesotho, Madagascar, Mauritius, and Togo are among the Sub-Saharan African countries preparing promotional programs, as are Egypt and Morocco in North Africa. Hungary and Poland are developing programs, and in Latin America, Costa Rica, Dominican Republic, and Mexico have promotion programs.
Characteristics of promotional programs in developing countries

These programs usually consist of three main elements: techniques aimed at building or changing the investment image of a country; techniques used to generate investment directly; and techniques directed at servicing existing and prospective investors.

Image-building techniques used by such programs include advertising in general financial media; participating in investment exhibitions; conducting general investment missions from source countries; and conducting general information seminars on investment opportunities. These techniques are used to influence the general view that potential foreign investors hold of a country as a place to invest; there is no expectation that these activities will directly generate investment. As an example of image building, the Industrial Development Authority of Ireland began its active promotional activities with an advertising campaign designed to establish an image of Ireland as a prime site for internationally mobile investment.

Investment-generating techniques are designed to interest a specific investor in investigating opportunities and then actually making the investment. Some of the techniques used include direct mail campaigns and industry- or sector-specific investment missions or informational seminars. The most important technique used by all of the most successful investment promotion agencies, however, is direct presentations to specific targeted firms.

This technique involves the identification of host-country industries and sectors where opportunities may exist. Firms that may be potential investors in these industries are then identified and specific decisionmakers within the firm are targeted for presentations by the promotional agency. The presentations outline the investment opportunity and try to get the decisionmaker to investigate these opportunities on site. When the investor visits the country, the promotional agency prepares an itinerary and provides whatever information is requested. The agency then follows up with the investor to help the firm make an investment commitment.

Most countries that have an active program of targeted investment generation do so through offices located in the home country of the targeted investors. Thus, among developing countries, the promotional programs of Malaysia, Thailand, Costa Rica, and the Philippines all have one or more overseas offices. Such offices are expensive to maintain, costing at a minimum $1 to $2 million per year per office. They are also difficult to manage from a distance. However, among developing countries, only the Dominican Republic has found ways to do targeted promotion without using overseas offices.

Investment service is the final stage of the promotion process. Its techniques include counseling, expediting the processing of applications and permits, and providing post-investment services. These techniques are designed to convert an investment commitment into an actual investment and, later, to ensure that the investor is pleased with the investment environment. In this way, it is hoped that the new investor will become an "ambassador" who will influence other firms to consider the country as an investment site.
Linkages between the programs

It is desirable to build links between the promotional programs of the developing and industrial countries so as to increase the effectiveness of both. On the one hand, the industrial country programs can support the efforts of the developing countries; on the other, the developing country programs can provide a focus for the activities of the industrial country programs. In order to realize these possible advantages, however, some organizational innovation may be in order to provide the necessary linkages.

There are a number of ways in which industrial country programs can support developing country programs. One, of course, is simply to provide direct financial support for all or part of the developing country's promotional activities. USAID has done this in a number of countries in Asia, Africa, and Latin America. UNIDO and UNDP also provide general assistance to investment promotion programs. Many OECD countries support the offices of UNIDO's investment promotion services, which in turn provide support through the delegate program to officers from host country promotional programs.

The industrial country programs also can help developing countries with their image-building and investment-generating activities. In terms of image building, the OECD programs can certainly organize general investment promotion missions at the request of developing country agencies and can also help these agencies organize and conduct informational seminars for potential investors.

The industrial country programs also can support the investment-generating efforts of developing countries by helping them to reach out to potential investors in the industrial countries. All promotional programs at some time have to focus on specific investors as targets for their efforts. The agencies handling the industrial country programs in many cases can reach investors that are of interest to the developing countries, possibly serving as the contact point with investors for the developing country programs. They can also help to finance investor travel to the developing countries. In this way, the OECD countries might obviate the need for developing countries to set up their own offices in the industrial countries.

Several industrial country programs already have begun to provide these kinds of linkages to selected developing countries. As noted, the DEG in Germany is stationing a staff member in foreign investment agencies in several developing countries. These representatives are supposed to find projects to refer to a counterpart in Germany, who then searches for a firm in Germany that could be a project partner. One of Japan's promotional programs provides a similar service in selected developing countries.

Such linkages with LDC promotional programs can strengthen the industrial country programs by providing a better sense of the promotional priorities than currently exists. It is the developing countries themselves who are best placed to know the priorities, which can form the basis for better targeting of the industrial country programs. However, stronger institutional linkages need to be developed among the programs if the types of mutual support envisioned are to be possible.
D. New initiatives to link the programs

Several types of linkages among the industrial country programs would provide the mutual assistance just discussed. On the one hand, ad hoc links can be developed to accomplish specific tasks of interest to both programs. On the other, it may be desirable to develop more formal and permanent links aimed at providing a continuing interaction between the programs.

*Ad hoc linkages*

Support from industrial country programs for the promotional efforts of developing countries can be arranged informally and carried out on a short-term basis. The industrial country programs, for example, can arrange a general promotional mission, support a sector-promotion plan, or finance a feasibility study at the request of the developing country agency. In whatever way, the industrial programs can respond to requests of the developing country promotion agencies and provide ad hoc assistance.

In order to develop such assistance, the programs in industrial and developing countries will need to begin to communicate with each other in a systematic way. The developing countries with promotional programs need to learn more about the programs available in the industrial countries; the latter need to learn more about the requirements of the developing country programs. Through an exchange of information, it will be possible to begin to see opportunities for cooperation.

Communication between the industrial and developing country promotional programs could be facilitated by a series of consultations that might be organized on a regional basis: in that way, a particular region’s developing countries that have established investment promotion programs could access industrial country programs interested in exploring linkages. The consultations would afford an opportunity for representatives from both sides to discuss their programs and explore opportunities for cooperation. The organizers of the consultations could provide some suggestions for cooperation, which could form the basis of discussions, and would also follow up to assist the various parties in arranging cooperative ventures.

*Formal linkages*

A number of more formal links might be established between the industrial and developing country programs that go beyond the ad hoc arrangements discussed above. These links would serve to incorporate the industrial programs more formally into the developing country programs. If this were to be done, the industrial country programs could provide a continuing service for the developing country programs.

The type of service most needed by developing country programs is help in reaching specific potential investors that are the targets of the developing country’s promotional efforts. Such assistance usually takes the form of presentations and continuing follow-up with targeted investors. Many countries establish overseas offices to give them the capability to undertake this kind of targeted promotion.
In place of these offices, it may be possible for the developing countries to reach potential investors by using the resources of the institutions that administer the industrial country programs. These institutions, whether they be DFIs or more specialized government agencies, certainly have contacts with potential investors in the country. These contacts can possibly substitute for establishment of overseas offices by the developing countries.

One way this may be done is for the industrial countries to serve as host to developing country agencies that are mounting specific campaigns. In such a case, the personnel of the developing country would use facilities and contacts provided by the industrial country agency. Alternatively, the personnel of the industrial country agencies could serve as the agents of the developing country to carry out a promotional campaign. In either case, the industrial country agency should have the capability to serve a number of developing country campaigns at one time. Of course, assistance of this type should be made available only to developing countries that have formulated a coherent investment promotion strategy.

Another way to help agencies reach investors in industrial countries would be to strengthen the capabilities of UNIDO's Investment Promotion Services (IPS). This service now has offices in many industrial countries that promote investment in specific projects identified by UNIDO. These promotion activities are being carried out by UNIDO staff. The IPS promotional offices also host "delegates" from developing countries who receive training in investment promotion techniques and who then carry out project promotion tasks. The delegates program could be expanded and reshaped to provide the capability needed by the promotional programs of developing countries.

IPS offices could be reconstituted as service facilities for investment promotion programs of the developing countries. The offices could provide physical facilities and staff support for the countries' targeted promotional efforts. That promotion would be carried out, however, by the staff of the developing country agency, with assistance from UNIDO staff resident in the industrial country. The main responsibility of the UNIDO staff would be to maintain contact with the in-country business community in order to help the developing country officials target firms for promotion and make contact with the right people in those firms.

Each UNIDO office should have the capability to handle concurrent promotional campaigns of several developing countries, supporting both the initial campaign and the follow-up activities. Follow-up might be done either by the UNIDO staff or by staff of the developing country agency.

National agencies in industrial countries can set up the same kind of promotional support, either to supplement the UNIDO program, or to take its place. The national agencies have the added advantage of being able to combine their existing programs with the investment promotion facility that has been described. Thus, in addition to providing facilities to LDC agencies for targeted promotion, the OECD country programs can, for example, provide support for investors interested enough to travel to the developing country; they can also help with feasibility studies and provide other types of support for projects that have been identified in the course of the targeted promotion process.
It will be necessary for an international organization to take the initiative to establish these kinds of formal links among the promotional programs. This organization can identify the developing country programs that have reached the stage where they can use the services that UNIDO and the national programs might provide. At the same time, the international organization can work with the industrial country agencies to establish the facilities that might be needed by host country programs. The institution would then be a continuing intermediary, bringing new countries into the program and monitoring the quality of the programs on both sides.

E. Conclusion

There is a ferment among developing countries as many try to increase the inflow of foreign direct investment. To this end, many countries are developing investment promotion programs. Some of these programs are sufficiently well designed to offer a good prospect for success if they obtain enough resources to support their activities.

The investment promotion programs that have been developed by the industrial countries, and by international organizations with industrial country support, can be of great help to the new developing country programs. While not designed to be linked to host country programs, the industrial country programs can be reshaped and linked to the developing country effort in a number of ways. As international organizations with economic development mandates, UNIDO and MIGA have an important role to play in arranging these linkages so as to increase the productivity of investment promotion programs in both industrial and developing countries.
Annex

Organizations visited for the survey

1. Bilateral agencies by country

**Austria**

- Bundeswirtschaftskammer (BWK) [Austrian Federal Economic Chamber], Vienna
- Haus der Industrie [Federation of Austrian Industrialists], Vienna
- Oesterreichische Kontrollbank Aktiengesellschaft (Kontrollbank), Vienna
- Österreichische Investitionskredit Aktiengesellschaft (Invest Kredit) [Austrian Investment Credit Corporation], Vienna

**Belgium**

- Fédération des Entreprises de Belgique (FEB), Brussels
- Ministère des Affaires Etrangères du Commerce Extérieur et de la Coopération au Développement, Administration générale de la Coopération au Développement (AGCD) [Ministry of Foreign Affairs External Trade and Development], Brussels
- Ministère des Finances [Ministry of Finance], Brussels
- Société Belge d'Investissement International (SBI) [Belgian Corporation for International Investment], Brussels

**Canada**

- Canadian Exporters Association, Ottawa
- Canadian International Development Agency, Hull, Quebec
- Investment Canada, Ottawa
- Ministry of External Affairs, Ottawa
- Société pour l'expansion de l'exportation, Ottawa

**Denmark**

- DANIDA, Ministry of Foreign Affairs, Department of International Development Cooperation, Copenhagen
- Eksportkreditradet (EK) [Export Credit Council], Copenhagen
- Industrialization Fund for Developing Countries (IFU), Copenhagen
- Industriradet [Federation of Danish Industry], Copenhagen
**Finland**

- Finnfund, Finnish Fund for Industrial Development Cooperation, Ltd., Helsinki
- FINNIDA, Finnish International Development Agency, Ministry of Foreign Affairs, Helsinki
- Finnish Export Credit Ltd., Helsinki
- Finnish Foreign Trade Association (FFTA), Helsinki
- Kauppa-Ja Teollisuusministeriö [Ministry of Trade and Industry], Helsinki
- Ministry of Finance, Helsinki
- Suomen Pankki [Bank of Finland], Helsinki
- Vientitakuulaitos [Export Guarantee Board], Helsinki

**France**

- Banque Française du Commerce Extérieur (BFCE), Paris
- Centre Français de Promotion Industrielle en Afrique (CEPIA), Paris
- Conseil National du Patronat Français (CNPF), Paris
- Ministère des Affaires Etrangères, Direction de la Coopération Scientifique et du Développement [Ministry of Foreign Affairs, Directorate for Scientific Cooperation and Development], Paris
- Ministère de la Coopération [Ministry of Cooperation], Paris
- Ministère de l’Économie et des Finances [Ministry of Economy and Finance], Paris
- Société de Promotion et de Participation pour la Coopération Économique (PROPARCO) of the Caisse Centrale de Coopération Économique (CCCE), Paris

**Germany**

- Bundesministerium für Wirtschaftliche Zusammenarbeit [Ministry of Economic Cooperation], Bonn
- Bundesstelle für Außenhandelsinformation (BFAI) [Federal Office of Foreign Trade Information], Cologne
- Bundesverband der Deutschen Industrie (BDI) [Federation of German Industries], Cologne
- Deutsche Investitions- und Entwicklungsgesellschaft mbh (DEG) [German Investment and Development Company], Cologne
- Deutsche Gesellschaft für Technische Zusammenarbeit GMBH (GTZ) [German Agency for Technical Cooperation], Frankfurt
- Deutsche Industrie und Handelstag (DIHT) [Association of German Chambers of Industry and Commerce], Bonn
- Kreditanstalt für Wiederaufbau (KfW), Frankfurt
Italy

- CONINDUSTRIA, Confederation of Italian Industries, Rome
- Direzione Generale per la Cooperazione allo Sviluppo (DGCS) [Directorate General for Development Cooperation], Ministry of Foreign Affairs, Rome
- Istituto Nazionale per il Commercio Estero (ICE) [Institute for Foreign Trade], Rome
- Mondimpresa, Agenzia per la Mondializzazione dell’Impresa [Union of the Chambers of Commerce and Industry], Rome
- Sezione Speciale per l’Assicurazione del Credito all’Esportazione (SACE) [Export Credit Agency], Rome

Japan

- Export-Import Bank of Japan (EXIM Bank), Tokyo
- Japan Consulting Institute (JCI), Tokyo
- Japan External Trade Organization (JETRO), Tokyo
- Japan International Cooperation Agency (JICA), Tokyo
- Japan International Development Organization (JICA), Tokyo
- Ministry of International Trade and Industry (MITI), Tokyo
- Overseas Economic Cooperation Fund (OECF), Tokyo
- Small Business Finance Corporation (SBFC), Tokyo

The Netherlands

- EVD, Netherlands Foreign Trade Agency, Ministry of Economic Affairs, The Hague
- Ministerie Buitenlandse Zaken [Ministry of Foreign Affairs]
- Ministry of Economic Affairs, International Investment Division, The Hague
- Nederlandse Financierings Maatschappij voor Ontwikkelingslanden (FMO) [Netherlands Development Finance Company], The Hague

Sweden

- EXPORTRADET, Swedish Trade Council, Stockholm
- Ministry for Foreign Affairs, Stockholm
- Sveriges Industriförbund [Federation of Swedish Industries], Stockholm
- Swedfund, Fonden för Industrielit Samarbete med U-Länder [Swedish Fund for Industrial Cooperation with Developing Countries], Stockholm

Switzerland

- Federal Office for Foreign Economic Affairs (FOFEA), Berne
  - Development Department
  - Swiss Export Risk Guarantee Board
United Kingdom

- Commonwealth Development Corporation (CDC), London
- Confederation of British Industry (CBI), London
- Department of Trade and Industry (DTI), London
- Developing Countries Trade Agency (DCTA), London
- Export Credit Guarantee Department (ECGD), London

United States

- Overseas Private Investment Corporation (OPIC), Washington, DC
- Trade and Development Program (TDP), Washington, DC
- U.S. Agency for International Development (USAID), Washington, DC
- U.S. Department of Commerce (USDC), Washington, DC

2. International organizations

- Center for the Development of Industry (CDI), Brussels
- European Community, Directorate General Development, Brussels
- European Community, Directorate General External Relations, Brussels
- International Trade Centre (ITC), UNCTAD/GATT, Geneva
- Nordic Project Fund, Helsinki
- Organization of Economic Cooperation and Development (OECD), Paris
- United Nations Conference on Trade and Development (UNCTAD), Geneva
- United Nations Industrial Development Organization (UNIDO), Vienna
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