



ASSESSMENT OF INVESTMENT PROMOTION CAPACITY IN GEORGIA

RECOMMENDATIONS FOR EPI SUPPORT

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ABSTRACT

Attracting investments, foreign and domestic, is one of Georgia's key priorities to promote sustainable economic development. During recent years, significant donor assistance has been provided to the Georgian National Investment Agency (GNIA) to build capacity to promote foreign investment. However, GNIA still lacks mandate, capacity, and resources critical for strategic vision based targeting, investment generation, investment facilitation, comprehensive investor after-care, and continuity. The objective of this study is to provide a comprehensive set of recommendations, based on international best practices, for improving the GoG's effectiveness in investment promotion based on a thorough assessment of the approaches and capacity of relevant agencies active in this vital functional area and to define EPI work plan interventions to support this effort.

DATA

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ABBREVIATIONS

BCR	Business Climate Reform Project
CIS	Commonwealth of Independent States
EDB	Economic Development Board
EPI	Economic Prosperity Initiative
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNIA	Georgian National Investment Agency
GoG	Government of Georgia
HIPP	Hydropower Investment Promotion Program
IDA	Industrial Development Authority
MIGA	– Multilateral Investment Guarantee Agency
MoAg	Ministry of Agriculture
MoEPNR	Ministry of Environmental Protection and Natural Resources
MOESD	Ministry of Economy and Sustainable Development
UAE	United Arab Emirates
UK	United Kingdom
US	United States
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

INTRODUCTION

Attracting investments, foreign and domestic, is one of Georgia's key priorities to promote sustainable economic development. During recent years, significant donor assistance has been provided to the Georgian National Investment Agency (GNIA) to build capacity to promote foreign investment. However, the government has so far taken an approach to investment promotion that largely sidelines the agency and prevents it from developing serious investment promotion capacity. A number of actors within the GoG have played an active role in investment promotion over recent years, including the President, the Prime Minister, and key line Ministries, such as the Ministry of Energy and Ministry of Agriculture—sometimes in coordination but often independently. GNIA still lacks mandate, capacity and resources critical for strategic vision based targeting, investment generation, comprehensive investor after-care and continuity.

This trend may be turning around. The Committee on Sectoral Economy of the Parliament of Georgia has recently initiated the process of streamlining investment related legislation, including the Law on Georgian National Investment Agency, as well as the Law on Promotion of Investment Activities and Guarantees and Law on State Support of Investments. The Committee realizes that the draft needs careful examination and considerable refinement, and therefore looks forward to receiving feedback from all stakeholders, including feedback on the most appropriate framework for GNIA to realize the GoG's ambitious efforts to attract new foreign investment.

The objective of this study is to provide a comprehensive set of recommendations for improving the GoG's effectiveness in investment promotion based on a thorough assessment of the approaches and capacity of relevant agencies active in this vital functional area, based on international best practices, and to define EPI work plan interventions that may support this effort.

CONTEXT FOR FDI PROMOTION IN GEORGIA

EMPLOYMENT OBJECTIVES

The Government of Georgia is under significant pressure to generate employment. Table 5 in the following report shows the levels of unemployed persons and unemployment during the 2004-2009 period. Without taking into consideration new entries into the work force, 137,379 jobs would need to be generated in order to reduce unemployment to an already high level of 10 percent. International experience in leading investment promotion programs has shown that for every direct employment generated through FDI promotion that at least two indirect jobs are also created. This means that a reasonable policy target of reducing unemployment from 16.9 percent to 10 percent would involve generating 45,793 direct jobs and 91,586 indirect jobs during a three to four year period.

FDI INVESTMENT OBJECTIVES

Foreign direct investment (FDI) has been a major driver in Georgia's economic development, reaching a high of USD1.56 billion in 2008, accounting for 12.2 percent of Gross Domestic Product (GDP). The political reforms implemented as of 2003 opened doors of opportunity in investment and privatization projects that spurred impressive growth that eventually peaked in 2007. However, FDI stock is concentrated mainly in real estate rather than productive investments.

While the drop in FDI inflows over the past year reflects adverse global conditions, the relatively low levels and systemic weaknesses of Georgian FDI stock are primarily a reflection of the lack of an effective investment promotion framework. The Georgian IPA has been given an investment target of USD 100 million per year. Given GNIA's prior history and record of accomplishment, this target is considered too ambitious and without external assistance from other programs such as EPI, it is unlikely that it will be able to achieve these investment levels. Despite significant support, the current approach to investment promotion in Georgia falls short of international best practices.

BENCHMARKING INVESTMENT PROMOTION IN GEORGIA

FDI promotion is a high priority for the GoG and the private sector. The benefits and need for employment generation, increased foreign investment and exports are recognized and supported. The President and the Prime Minister have been leading these efforts, taking an active part in promoting investments abroad as are the main economic ministries such as Ministry of Economy and Sustainable Development (MoESD), Ministry of Environmental Protection and Natural Resources (MoEPNR), Ministry of Agriculture (MoAg) among others. The enthusiasm and commitment to promoting FDI is commendable and there is a shared vision regarding the importance and need for these efforts.

However, the current approach to investment promotion in Georgia does not reflect international best practices. As shown in the table below, the GNIA lacks almost all the required elements to be an effective agency.

Benchmarking Georgia's Investment Promotion Framework	
International Best Practices	Georgian Practices
Organization	
Clear legal status, mandate and autonomy	GNIA is established by law and has defined functions, but lacks operational autonomy and required power. The present law is outdated and does not reflect the presently required functions
Mixed board of directors with majority private sector members	GNIA lacks a board; until recently there has been no private sector participation. Recently an Advisory Council has been integrated with the participation of 4 private sector members
Strong political support and commitment; link to highest level of government	GNIA lacks a direct link to highest levels of government; supervisory ministry is weak—neoliberal philosophy of GoG has resulted in lack of support
Adequate funding/independent budget	GNIA's new operating budget is only USD 1.5 million and much of this is allocated to non-staff expenses; it lacks control over its budget
Professional leadership and staff compensated at private sector levels	GNIA experiences high leadership and staff turnover due to low pay levels and lack of autonomy

Strong investment promotion network	Various stakeholders—associations, zone developers, other ministries, GNIA—engaged in promotion are not well integrated
Defined results measurement system	Lacking
Functions/Services	
Image building	Main focus of GNIA is in support of fragmented higher level investment promotion efforts
Robust investment promotion strategy and promotion plans	Lacking—mainly an opportunistic and scattershot approach; lack of sustained follow-up of contacts and events
Investment targeting/proactive investment generation	Lacking—primarily opportunistic and reactive promotion; GNIA organizes “invest in Georgia seminars” and supports activities of office of president and PM
Investment facilitation and aftercare	GNIA provides information and match-making on a limited basis; is a one stop shop only on paper

ENHANCING GEORGIA’S CAPACITY FOR INVESTMENT PROMOTION

The following sections present two alternative scenarios to improve investment promotion in Georgia.

SCENARIO 1 - FULL REFORM TO VEST GNIA WITH MANDATED LEAD

Given the structural limitations imposed by the existing institutional framework for investment promotion in Georgia, the ideal case scenario would be to implement a structure that would be able to respond to the policy objectives and achieve the massive impacts that would launch Georgia into a new era of growth and prosperity. This structure would be a full spectrum reform that would create the mandate for effective investment promotion and establish an integral solution.

The chart at the right outlines the levels of capacity development that are required of leading IPAs. It is clear that GNIA is positioned partially in the entry level and in other areas in the more competitive level. However, there is a long way to go for it to become an advanced competitor or a best practice IPA which is what is required to fulfill Georgia’s FDI objectives and targets.



While this is the international best practice approach, from the tone of the meetings during the assessment mission, there does not seem to be an appropriate climate for this reform. It is hoped that through increased results and impact from FDI in the future, this might open the doors for this type of ground up restructuring.

SCENARIO 2 – BUILD CAPACITY OF GNIA AS CENTER OF EXCELLENCE IN INVESTOR SERVICING AND AFTERCARE

Given the existing GoG structure for investment promotion and assuming that a major structural change is not planned in the near term, the second alternative is a more pragmatic approach to outline a promotional framework with all of the main actors. This structure does not require reforms and yet effectively positions GNIA within the existing framework and move it to a more relevant and value added role. In this proposed framework, GNIA would be positioned as a center of excellence to provide key value added services to support and increase the service delivery capacity of the national investment promotion efforts. These services include:

- Analysis and research capacity to perform market intelligence and sector briefings with information required for effective proactive and targeted promotion;
- Investor facilitation and servicing capacity to attend investors in a systematic and methodologically appropriate manner;
- A single point of contact to provide overall coordination of investor inquiries and follow-up; and
- Investor aftercare capacity to retain existing investors and grow their presence.

In addition to developing GNIA's internal capacity, it is also necessary to develop the roles and relationships for all of the actors in the promotional process and bring them together into a promotional network. The purpose of the promotional network is to establish a network of actors who work together in a coordinated manner and within a systematic process to achieve a common goal. For the promotional network to function it is necessary to define the roles and responsibilities of all entities involved in the promotional process.

Promotional Network Roles and Responsibilities

Stage of Promotional Process	Person / entity	Activities
Lead generation / Awareness building / Image building	President, PM or Economic Ministries	Promote investments, incl. downstream and upstream investments in context of large infrastructure projects
	GNIA market intelligence department	Provide high level officials and their advisors with solid investment promotion information briefs, talking points and collateral materials prior to all outreach missions and international events
Targeted investment promotion	GNIA market intelligence department	Provide investment mission members with targeted potential investors; Facilitate the logistics of arranging investor meetings during missions
Proactive promotion	GNIA	Receive hand off from promotional missions; Establish contact with potential investors; Provide follow-up and additional information and research services; Keep high level officials and foreign offices updated on progress
Investor facilitation	GNIA	Develop and provide site visit facilitation services, incl. incorporation of key actors in promo network
	Key Ministries	Meeting of investors with relevant political and technical personnel; answer sector and policy questions
	Private Sector	Meeting of investors with relevant associations and

	Reps	chambers; answer sector and business climate questions
Investor servicing	GNIA	Recommend service providers; Provide local information; Mentor investors until they are fully established
	GNIA Board	Investor problems are handed off to representatives from relevant ministries for their resolution
Investor aftercare	GNIA	Develop investor database; visit investors; promote expansions or diversifications; communicate leads to high level officials for their assistance

PROPOSED EPI WORK PLAN INTERVENTIONS

In order to assist the GoG to address the weaknesses in investment promotion, it is proposed that EPI undertake a number of interventions. The following table outlines the proposed activities for EPI assistance to GNIA.

Proposed EPI Work Plan Interventions		
Action Name	Action Type(s)*	Resources Required
Training course for GNIA staff and key members of promotional network (PM and Ministry Advisors)	STTA, Event (T)	Expat investment promotion expert(s)
Provide technical assistance to improve the GNIA governance structure	STTA	Expat investment promotion expert(s)
Develop strategy for targeted promotion by sectors and subsectors and potential markets	STTA	Expat and local market researchers
Develop plan for market and sector specific image building	STTA	Expat and local market researchers
Train selected diplomatic and commercial attaches in targeted countries	STTA, Event (T)	Expat investment promotion expert(s)
Develop proactive promotion plan based upon targeted promotion and GoG plans and priorities	STTA	Expat investment promotion expert(s)
Improve investment promotional collateral materials (country presentation (written and PowerPoint), country briefing for site visits, country brochure, sector brochures, GNIA website)	STTA, Proc (S)	Expat investment promotion expert(s), local PR experts; graphic design and printing services
Enhance capacity for fairs and shows (manual and training)	STTA, Event (T)	Expat investment promotion expert(s)
Training given to promotional staff on custom research for investors	STTA, Event (T)	Expat investment promotion expert(s)
Develop capacity to organize and facilitate investor site visits (GNIA staff trained, templates developed)	STTA, Event (T)	Expat investment promotion expert(s)
Develop Investor Information System with the answers to investor questions and information requests	STTA, Proc (S)	Expat and local market researchers; IT/website development
Develop investor servicing capacity	STTA, Event (T)	Expat investment promotion expert(s)
Develop database of potential and existing investors for aftercare services	STTA	Expat investment promotion expert(s), local IT consultant

* Action types include: STTA = Short-term Technical Assistance; Event (T) = Training event; Event (NT) = Non-training event (e.g. discussions, teambuilding, etc); Proc (C) = procurement of commodities (e.g. computers); Proc (S) = Procurement of services (e.g. a subcontract to a printer for printing services).

1. INTRODUCTION

1.1 BACKGROUND

Attracting investments, foreign and domestic, is one of Georgia's key priorities to promote sustainable economic development. During recent years, significant donor assistance, from multiple sources, has been provided to the Georgian National Investment Agency (GNIA) to build capacity to promote foreign investment. However, the government has so far taken an approach to investment promotion that largely sidelines the agency and prevents it from developing serious investment promotion capacity. A number of actors within the GoG have played an active role in investment promotion over recent years, including the President, the Prime Minister, and key line Ministries, such as the Ministry of Energy and Ministry of Agriculture—sometimes in coordination but often independently. GNIA still lacks mandate, capacity and resources critical for strategic vision based targeting, investment generation, comprehensive investor facilitation and after-care and continuity.

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1.2 OBJECTIVES

The objective of this study is to provide a comprehensive set of recommendations for improving the GoG's capacity and effectiveness in investment promotion based on a thorough assessment of the approaches and capacity of relevant agencies active in this vital functional area, based on international best practices, and to define EPI work plan interventions that may support this effort.

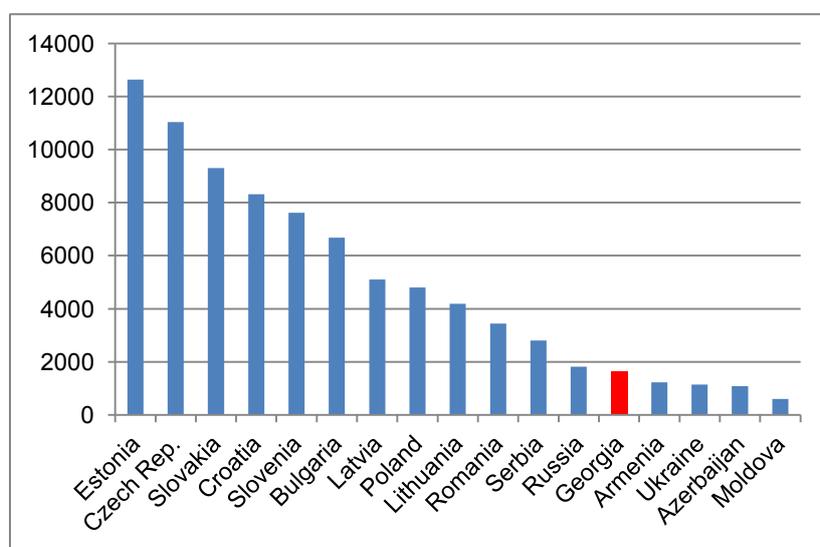
1.3 REPORT STRUCTURE

The remainder of this report is organized as follows. Chapter 3 provides an overview of the context for attracting foreign direct investment to Georgia. Chapter 4 provides an assessment of investment promotion capacity in Georgia against international best practices, based on successful investment promotion models in Ireland, Czech Republic, Singapore and Costa Rica, as well as others. Chapter 5 provides recommendations for enhancing investment promotion in Georgia based on international best practices and lessons learned in Georgia and outlines key interventions that EPI can support to build the necessary capacity for investment promotion in Georgia.

2. CONTEXT FOR FDI IN GEORGIA

Foreign direct investment (FDI) has been a major driver in Georgia's economic development, reaching a high of USD1.56 billion in 2008, accounting for 12.2 percent of Gross Domestic Product (GDP). Net cumulative FDI also reached 44.5 percent of GDP that year. The twin shocks of the Russian conflict and the 2008 global recession resulted not only in a dramatic drop in FDI inflows, but unveiled underlying weaknesses of Georgia's FDI stock. FDI stock is concentrated mainly in real estate rather than productive investments. A major driver has been privatization transactions rather than Greenfield projects. FDI stock per capita—while higher than most other CIS countries—remains low compared to other transition economies.

Figure 1: FDI Stock per Capita, 2009 (USD)



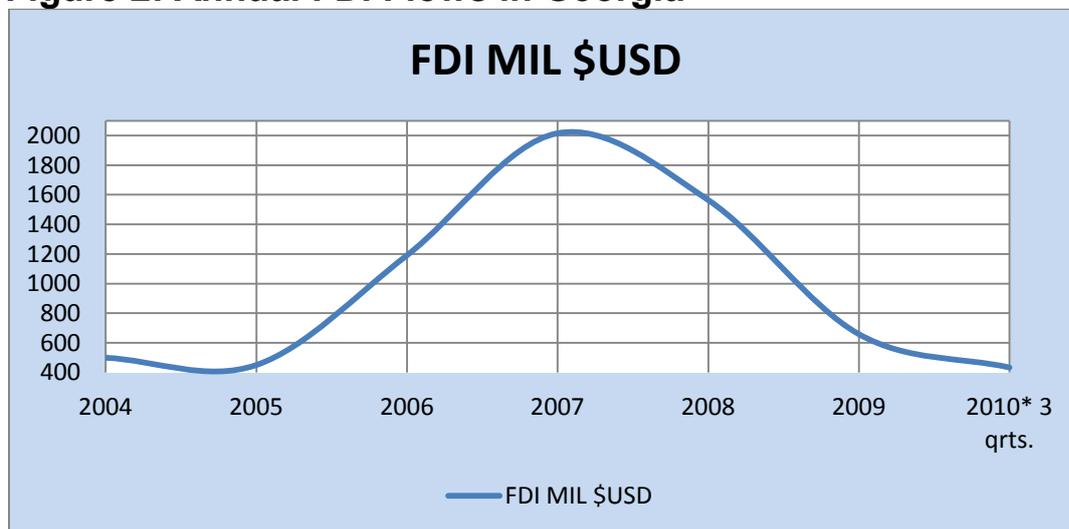
While the drop in FDI inflows over the past year reflects adverse global conditions, the relatively low levels and systemic weaknesses of Georgian FDI stock are primarily a reflection of the lack of an effective investment promotion framework and promotional structure. Despite significant support, the current approach to investment promotion in Georgia falls short of international best practices.

2.1 FDI FLOWS

As a starting point in which to assess the promotional framework for investment promotion in Georgia, this section will analyze the context for FDI promotion including the patterns in FDI flows in recent years as well as the segmentation and origin of these flows. The period 2004-2010 analyzed includes a span of time in which both internal as well as global events significantly affected Georgia FDI flows. In 2003, Georgia underwent an important political reform, during the 2006-2008 Georgia benefited from the excess liquidity in the global economy particularly in the cash rich Gulf Countries and in 2008 through 2010 a financial crisis that started in the US became global with profound impact on FDI around the globe.

Figure 2 below, shows that Georgia benefited from unprecedented FDI flows between 2006 and 2009. The political reforms that started in 2003 opened doors of opportunity in investment and privatization projects that spurred impressive growth and eventually peaked in 2007. While the country has succeeded in streamlining and improving its business environment and moving to an enviable number 12 ranking in the 2010 World Bank Doing Business Indicators, the global financial crisis has taken its toll and FDI levels have receded back to 2004-2005 levels.

Figure 2: Annual FDI Flows in Georgia



Source: National Statistics Office of Georgia

Table 1 below shows the amounts and the composition of FDI during the last four years. It is important to highlight the role that privatizations have played where they have contributed 16 percent of total FDI. This is highlighted since privatizations are normally one-off projects that once finalized don't continue to contribute to future sustainable FDI flows. In addition, the financial sector, including microfinance organizations, represents about 5 percent of total FDI. Of the total amount, only 79 percent is attributable to the economic activities of enterprises and that is the area where Georgia needs to concentrate its promotional efforts and resources in order to grow.

Table 1: Composition of FDI by Source (USD '000)

Source	2007	2008	2009	2010 (thru Q3)	Cumulative	Percent
Economic Activities of Enterprises	1,530,576	1,276,395	511,433	324,217	5,754,666	79%
Privatization	347,352	279,048	97,305	36,539	1,173,134	16%
Financial sector**	136,915	8,519	49,663	72,280	397,840	5%
Total	2,014,842	1,563,962	658,401	433,036	7,325,640	100%

* Preliminary data.

** Since 2009 beside banks financial sector includes FDI data in microfinancial organizations.

Sources: 1. National Statistics Office of Georgia (Statistical survey on external economic activities); 2. National Bank of Georgia; 3. Ministry of Economy and Sustainable Development of Georgia; 4. Ministry of Finance and Economy of Adjaran A/R.

2.2 LEADING SOURCES OF FDI

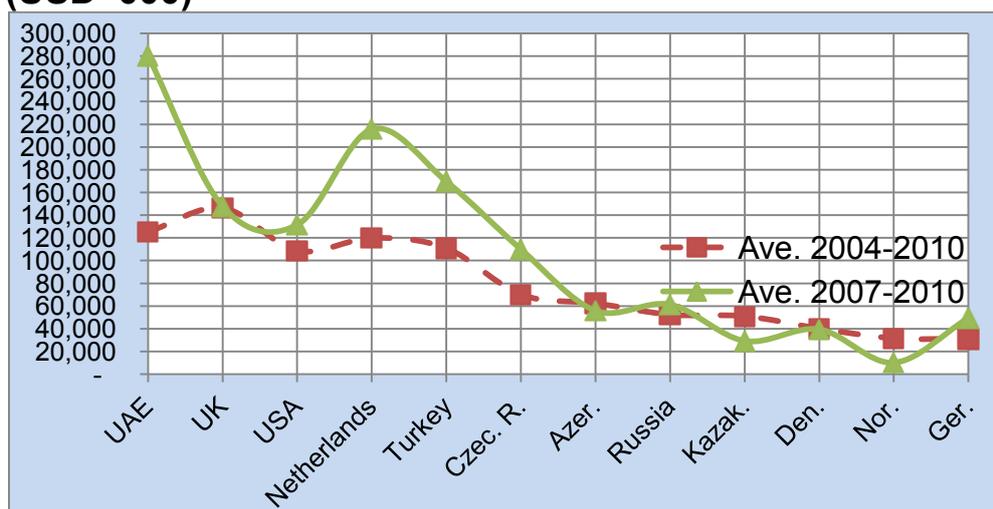
While Georgia has received investment from a broad spectrum of FDI investor countries, in the future, to maximize promotional efforts, it will be important to concentrate promotional efforts on those countries with the greatest volume and future potential. Upon an analysis of Georgia's FDI statistics, we find that there are twelve leading FDI investor countries that make up the majority share of FDI. During this analysis, the focus was placed upon countries with the greatest potential for value added FDI. Excluded from this analysis are countries characterized for offshore banking including US Virgin Islands, Luxemburg, Cyprus, Panama, Belize, and Cayman Islands. The finding shows that regardless of the period under analysis 2004-2010 or 2007-2010, the twelve countries comprise between 71 percent and 72 percent of Georgia's FDI flows.

Top Sources of FDI to Georgia

1. UAE
2. United Kingdom
3. United States
4. Netherlands
5. Turkey
6. Czech Republic
7. Azerbaijan
8. Russia
9. Kazakhstan
10. Denmark
11. Norway
12. Germany

Figure 3 indicates the average FDI flows from each country during the two periods analyzed. The 2004-2010 period was chosen as an indicator of the longer-term performance both before and during the global financial crisis. The analysis of the second period look at the performance in recent years spanning from 2007 to the present, reflecting the peak FDI year (2007) until the 3rd quarter of 2010.

Figure 3: Average FDI Flows to Georgia from Selected Countries (USD '000)



The following present a closer look at the FDI characteristics of the individual countries and provides some initial filtering criteria with which to prioritize future promotional efforts and resources.

- **United Arab Emirates:** While this country has historically been the largest source of FDI during the 2007 to 2010 period, this is certain to change due to the global financial crisis and its impact on the UAE. Dubai, which was the most aggressive investor in the Emirates, has had to retrench and some of its key investments rescued by Abu Dhabi. It is unlikely that that they will be significant

investors during the coming years until they have recovered from their present overleveraged position. It is even possible that they will want to divest themselves of existing investments in Georgian ports as part of a retrenchment strategy, which would not contribute to net FDI figures.

- **United Kingdom:** During the last decade, the UK has traditionally been a strong investor in Georgia. In both periods analyzed, its average FDI has exceeded USD 140 million per year. As is the case with the UAE, the global financial crisis has had an important impact on the UK and FDI flows will likely be reduced in addition to their being more selective of other investment options.
- **United States:** Along with the UK and the UAE, the US has been one of Georgia's main investor countries. In both periods, the average USD investment has been USD 108.7 million (2004-2010) and USD 131.5 million (2007-2010). Like the UK and the UAE, the US economy has also been severely affected by the global financial crisis. It is unlikely that given the contraction in stock markets, investment banks and financial liquidity that prior investment levels will be regained until a substantial recovery is achieved in the coming years.
- **The Netherlands:** the Netherlands has been a significant FDI partner in Georgia contributing the second highest level of combined FDI in both periods. They have made significant investments in manufacturing and construction.
- **Turkey:** Turkey is the country with the greatest potential from which to attract FDI into Georgia. Historically Turkey has invested an average of USD 111 million per annum (2004-2010) and USD 170 million per annum (2007-2010) and occupies the fourth place in average investment during both periods. As neighbors to the south, there are proximity benefits that contribute to enhancing Georgia's competitive and comparative advantages. They are significant players in the garment and textile sectors and this is an area for additional growth and value added. These and other sectors that are under development in the northern provinces of Turkey would benefit from power price and availability of Georgian power. There are also projects underway to generate electricity in Georgia for export to the North of Turkey.
- **Czech Republic:** This is the sixth country of importance in Georgia's FDI flows. During the last four years, their average investment levels have increased to (USD 110 million) relative to the investment levels during the 2004-2010 period (USD 70 million). The Czech Republic has been highly successful in attracting FDI and they are recognized as one of the success stories in FDI promotion during the last decade. As they continue to progress in this area, there are opportunities to move lower value added production and services to other offshore destinations such as Georgia.
- **Azerbaijan and Kazakhstan:** Both of these countries offer opportunities to promote FDI, leveraging the geographic proximity as well as historical investment and trade patterns.
- **Russia:** Although Russia was never an FDI leader in Georgia, nevertheless during the last decade it contributed between USD 50 and 60 million per year in investments. However, given the political tensions between both countries this will not be an FDI option.

- **Denmark, Norway and Germany:** these three countries make up the lower ranks of Georgia's FDI partners. It is possible that due to Georgia's energy policy priorities that these countries, who are leaders in this type of energy technologies, will play a greater role in Georgia in energy related FDI in the future.

Figure 4 and Table 2 illustrate the main sectors that have contributed to FDI flows to Georgia during the last two years as well as how these sectors contributed to the FDI mix. Analysis of these years is of particular significance since they reflect the FDI patterns in each sector during a period when the global economy was subject to a financial crisis.

Figure 4: FDI Flows in Selected Sectors from Top 10 Origin Countries (USD '000)

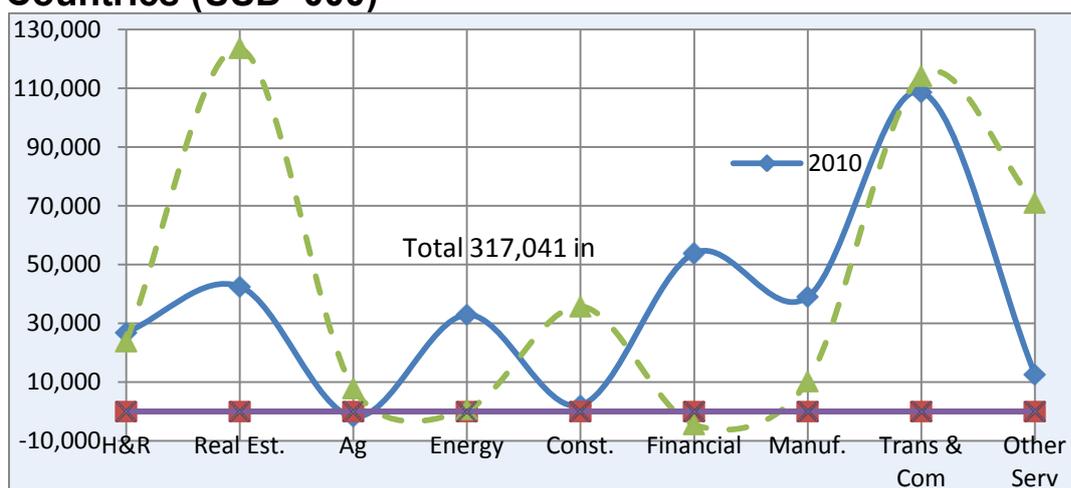


Table 2: FDI by Sector (USD '000)

	H&R	Real Est.	Ag	Energy	Const.	Finan.	Manuf.	Trans & Com	Other Serv
2010	26,909	42,527	-1,733	32,889	2,175	53,871	38,970	108,740	12,692
%	6%	10%	0%	8%	1%	12%	9%	25%	3%
2009	23,838	123,568	7,859	694	35,792	-4,540	10,374	114,235	70,996
%	6%	32%	2%	0%	9%	-1%	3%	30%	19%

2.3 PRELIMINARY ASSESSMENT OF SECTORS FOR PROMOTION

One of the objectives of this consultancy is to provide recommendations regarding a strategy, framework and institutional structure to promote FDI to Georgia. Items to consider within that structure are large projects that would normally be promoted and negotiated at the higher levels of government versus others that, although assisted by other agencies within the GoG, could be primarily promoted and facilitated by GNIA. In that context and for the purpose of this analysis, the above sectors are grouped into two broad categories.

The first category includes the sectors that due to their value added characteristics, relative investment size and labor intensiveness can be directly promoted by GNIA.

This also assumes that the EPI Program would provide the necessary technical assistance to increase GNIA's capacity to an appropriate level to fulfill these needs. The other sector grouping reflects projects that are capital intensive in nature, of larger project size and have infrastructure requirements that are addressed as strategic projects at higher levels of government. Most of these projects would fall into the Oil and Gas sector as well as Hydroelectric Power Generation and Transmission and Transportation and Logistics.

The different characteristics of the investments in these two groups will drive the structure and promotional requirements for each group thus impacting on the recommended structure for GNIA and promotional network to be addressed later in this study.

2.3.1 SECTORS WITH POTENTIAL FOR PROMOTION BY GNIA/EPI

The following sections present a preliminary assessment of the primary sectors for investment promotion into Georgia, based upon historical FDI trends. Further analysis is required to validate this list through market intelligence research—including industry forecasts, regional trends, —and to target investors within specific segments of each of these categories.

For the purposes of this analysis, the **Hotels and Restaurants (H&R)** investments and **Real Estate** investments have been joined into a single category since they are so closely interrelated. During the 2009 and 2010 periods analyzed, these sectors represented a combined investment of USD 217 million and about 32 percent of the investment share from the top ten FDI countries.

Of all of the sectors, the agricultural sector has only contributed USD 6 million in net FDI which represent only 0.8 percent of the total. **Agriculture** represents a significant portion of GDP, currently contributing 9 percent of GDP however, during the USSR period it was as high as 30 percent. It is a sector hindered by low yield, fragmented small land holdings and undeveloped distribution channels. This sector employs approximately 50 percent of the population although unfortunately mainly in subsistence agriculture. All of these characteristics pose challenges to promoting FDI in this sector.

Some segments of this sector such as wine, citrus, fresh and processed fruits, nuts and vegetables and green house products have good potential, although small in size. An investor from Spain has indicated interest in Almond production and an Indian group interest in diversified farming. Georgia imports about 70 percent of its food products and this presents an opportunity for investment oriented towards import substitution. Regardless of the sector, FDI is normally driven by export potential. While import substitution can contribute, these segments need to be complemented by export production. It is unlikely that with the exception of isolated niches, that this sector will be a major contributor to FDI given the volumes, constraints and time spans required.

Construction represents USD 38 million and about 5 percent of FDI while the manufacturing sector contributed about USD 49 million and 7 percent of the total FDI. **Other Services** contributed USD 84 million in FDI and represented about 11.9 percent of the total.

Transportation and Communications is the largest of the FDI sectors with a combined investment volume of USD 223 million and approximately 31.9 percent of the volume. Currently the EPI program, under another scope of work, is analyzing some opportunities for the sector. This could contribute in segments such as ports and logistics areas while other investment areas such as Communications that are addressed by government.

Table 3: FDI in Value Added Sectors (USD '000)

	H&R/Real Estate	Ag	Const.	Manuf.	Trans & Com	Other services	Total in USD thousands in two years
2-year Total	216,842	6,126	37,967	49,344	55,743	83,688	449,710
1 Year	108,421	3,063	18,983	24,672	27,871	41,844	224,855
Share	31.0%	0.8%	5.0%	7.0%	8.0%	12.0%	63.7%

2.3.2 STRATEGIC SECTORS FOR PROMOTION BY HIGHER LEVELS OF GOVERNMENT

Energy, Financial, Transport and Communications Sectors. The energy sector is one of the prime sectors in which Georgia has pronounced competitive and comparative advantages. In the last two years, this sector contributed USD 38 million in FDI which represents 4.7 percent of the total. This is a sector with great growth potential and it should become one of the leading FDI sectors in the future.

Table 4: FDI in Capital Intensive Sectors (USD '000)

	Energy	Financial	Trans & Com	Total in USD thousands in two years
2-year Total	33,583	49,331	167,231	250,145
1 Year	16,791	24,665	83,615	125,071
Share	4.7%	7.0%	23.9%	35.6%

2.4 POLICY OBJECTIVES

2.4.1 EMPLOYMENT GENERATION

The Republic of Georgia is under significant pressure to generate employment. The following table shows the levels of unemployed persons and unemployment during the 2004-2009 period. Unemployment has increased to 16.9 percent partially as a result of the decline in FDI levels after their peak in 2007. Without taking into consideration new entries into the work force, 137,379 jobs would need to be generated in order to reduce unemployment to an already high level 10 percent level. International experience in leading investment promotion programs has shown that for every direct employment generated through FDI promotion that at least two indirect jobs are also created. This means that a reasonable policy target of reducing unemployment from 16.9 percent to 10 percent would involve generating

45,793 direct jobs and 91,586 indirect jobs during a three to four year period. These volumes would significantly contribute to reducing the pressure of unemployment.

Table 5: Employment and Unemployment

	2004	2005	2006	2007	2008	2009
Active population (_000)	2041	2024	2022	1965	1918	1992
Employed (_000)	1783	1745	1747	1704	1602	1656
Unemployed (_000)	257.6	279.3	274.5	261.0	315.8	335.6
Unemployment rate	12.6%	13.8%	13.6%	13.3%	16.5%	16.9%

Source: National Statistics Office of Georgia.

2.4.2 FDI INVESTMENT OBJECTIVES

- FDI Target for the EPI program:** The USAID funded EPI project is expected to assist in the generation of USD 500 million in investment during its four year term. This is an ambitious target since Georgia's total FDI at this time is approximately USD 500 million per year. This means that EPI will have to contribute approximately USD 125 million per year during the next four years which represents a 100 percent increase over existing levels. This is particularly challenging since the value added labor-intensive sectors in which Georgia has competitive advantages are reduced and of smaller size.
- FDI Target for GNIA:** The Georgian IPA has been given an investment target of USD 100 million per year. Given GNIA's prior history and record of accomplishment, this target is considered ambitious and without external assistance from other programs such as EPI, it is unlikely that it will be able to achieve these investment levels and growth. There is a compelling case for EPI and GNIA to work together since GNIA does not have the internal capacity or expertise to achieve this level of FDI promotion. For EPI to be successful in fulfilling its investment objectives, it needs to work hand in hand with the GoG's promotional network, in particular GNIA. This idea will be further developed in the next section on the Promotional Network.
- FDI Target for the HIPP program:** The USAID funded HIPP Program has an investment target to facilitate between USD 700-800 million in hydroelectric projects over the next three years. They estimate that these 20 projects will generate a combined total of 400 MW in electricity. The investment level for this type of project is about USD 2 million per MW, which represents an average project investment size of USD 37.5 million to USD 40 million each.

HIPP could benefit from promotional assistance from GNIA on these projects since even though they have the internal resources to formulate these projects and structure the deals; there is a considerable effort in investor facilitation and servicing that GNIA can provide, with technical assistance and capacity building support from EPI. This would also be consistent with its technical assistance efforts with GNIA. This warrants further analysis since it represents a win-win situation for HIPP, EPI and GNIA.

3. BENCHMARKING INVESTMENT PROMOTION IN GEORGIA

3.1 BEST PRACTICE INVESTMENT PROMOTION MODELS

International experience suggests that an investment promotion agency (IPA) can be a highly significant factor in facilitating FDI inflows particularly for smaller countries (with populations of 10 million and below). A World Bank empirical study of IPAs in developing and transition countries has shown that, on average, a 10 percent increase in an investment promotion budget of an IPA with a budget within the USD60,000 to USD2.0 million range leads to a 2.5 percent increase in FDI levels (Morriset, 2003). The experience of IPAs in many eastern and central European countries has also been positive.

The following sections assess Georgia's current and planned investment promotion framework against international best practices in investment promotion, in order to identify gaps in the current framework and areas for future capacity building. The assessment draws on leading investment promotion models, including Ireland, Singapore, Costa Rica and the Czech Republic—all countries that started from a low-base, in terms of economic development, and benefitted from the strategic development of investment promotion approaches and methodologies.



Ireland's **Industrial Development Agency (IDA-Ireland)** was established, in its current form, in 1994. IDA-Ireland's inward investment program has been a driving force behind the transformation of the Irish economy. IDA-Ireland-supported investments make up 30 percent of gross value added in the Irish economy, and account for two-thirds of all exports. By 2009, IDA-Ireland-supported companies generated some 135,000 jobs. The "**Irish Model**" to investment promotion has provided the blueprint that was expanded and improved upon for the development of other successful investment promotion agencies, including Costa Rica's CINDE and CzechInvest, both showcased here as best practice models for promoting inward investment.



Singapore's **Economic Development Board (EDB)** was established in 1961 to promote foreign investment, at a time when Singapore was classified as a third-world country with a GNP per capita of less than USD 320. The EDB has played a leading role throughout Singapore's rapid economic modernization and diversification process. The EDB's leading role in promoting investment has remained strong—between

2000 and 2008, the EDB grew direct investment from USD8.0 billion to USD14.0 billion.



Costa Rica's **CINDE** (*Coalición Costarricense de Iniciativas de Desarrollo*) was established in 1982 with USAID support as an association of 76 prominent local business people under the "Association Law" of Costa Rica. CINDE has been instrumental in Costa Rica's remarkable success in generating foreign direct investment and diversifying the economy toward high value-added and technology-intensive exports in production and export services. By 2010, CINDE assisted in the generation of USD 2.75 billion in FDI and the generation of more than 6,500 jobs per annum.



CzechInvest, the Investment and Business Development Agency, provides assistance to Czech and foreign firms which decide to establish or expand their business in the Czech Republic. Established in 1992 by the Ministry of Industry and Trade (MIT), with assistance from Ireland's IDA-Ireland experts, CzechInvest at first focused on marketing the Czech Republic to ensure FDI inflow for industrial restructuring and development. Throughout its existence CzechInvest has taken part in 1,310 investments worth USD 37 billion. Projects mediated by CzechInvest have resulted in the creation of 203,485 jobs. A recent analysis showed that CzechInvest directly facilitated about 36 percent of total national FDI inflows between the early 1990s and 2003—at a time when FDI inflows to those countries increased five-fold (Piontkivska & Segura, August 2003). CzechInvest has rightfully set the standard for investment promotion in the transition economies of Central and Eastern Europe.

The following analysis, in addition to the above models, draws a number of other examples of best practice investment promotion methodologies and approaches, as appropriate. While each of these countries display unique characteristics, in terms of institutional structures for investment promotion, the common approaches and methodologies that they have adopted represent a replicable framework that can be implemented, with positive results, including in countries like Georgia.

3.2 KEY FACTORS FOR SUCCESSFUL INVESTMENT PROMOTION

The following sections benchmark the Georgian framework for investment promotion against international best practices in the following key areas, including:

- Institutional and governance framework;
- Mission and objectives;
- Scope of services; and
- Human resource and financial capacity.

3.2.1 INSTITUTIONAL AND GOVERNANCE FRAMEWORK

The effectiveness of an IPA critically depends on its legal status, political support, and partner network. The most effective IPAs are those that are business-oriented and flexible. Key **institutional and organizational success factors** include:

- **Clear legal status and operational autonomy.** The most successful IPAs have a clear legal structure with defined functions and powers necessary to carry out their mandates. They also have the necessary autonomy to pursue their

mandates flexibly, free from political interference and control over their budgets and allocation of resources. Autonomous and semi-autonomous IPAs have proven to be far more effective than units within ministries. FDI flows are significantly lower in countries where the IPA was part of a ministry, in contrast to those that were either an autonomous or semi-autonomous public institution. IPAs within ministries often do not have the resources, policy support, or strategic freedom to achieve substantial goals **Invalid source specified..**

- **High level political support.** Political support from the highest levels of government is an essential prerequisite. The IPA must have a direct link to the highest levels of government who must visibly and consistently support it. The best performing IPAs are those that have a direct link to the highest levels of government (President or Prime Minister). At the same time, it is critical that an agency is well integrated with the private sector to enhance transparency and credibility. The agency must be transparent and have the trust of the investment community, including foreign investors already present in a host country.
- **Corporate governance and board of directors.** Experience also underscores the importance for an IPA to have a mixed public-private board of directors. High level government board members are essential to provide access to government offices, build credibility and enable an IPA to address investor issues. Private sector board members help enhance the transparency of the organization, promote understanding and support among the broader private sector, and provide significant support to promotional efforts.

IDA-Ireland, EDB, and CzechInvest all are autonomous government agencies. Their respective legislation provides them each with control over their budgets and resource allocations, and holds them accountable as public corporations (see Table 6).

“The ideal way to keep the agency flexible and free from the government’s administrative stiffness and bureaucracy would be to have the legislation specify that the agency will be autonomous yet accountable, and also have clear and simple reporting structures.”

- Jan Havelka, former CEO of CzechInvest

Table 6: Comparative Institutional and Governance Frameworks

	GNIA Georgia	IDA-Ireland Ireland	EDB Singapore	CINDE Costa Rica	CzechInvest Czech Republic
Legal Status	Autonomous gov’t agency	Autonomous gov’t agency	Autonomous gov’t agency	Private, non-profit association	Autonomous gov’t agency
Oversight	Ministry of Economy	Department of Enterprise, Trade and Employment	Ministry of Industry	Not applicable	Ministry of Industry and Trade
Board	Public	3 public, 9 private	4 public, 12 private	Private	7 public, 4 private

For example, under Singapore’s Economic Development Board Act of 1961, the EDB is a body corporate with perpetual succession and a common seal and shall, by that name, be capable of — (a) acquiring, owning, holding and developing or disposing of property, both movable and immovable; (b) suing and being sued; and

(c) doing and suffering such other acts or things as bodies corporate may lawfully do and suffer.” Each of these agencies receives a budget allocation from the government, but is also permitted to raise its own funds, including borrowing, grants and donor funding.

CINDE is the only one of the four to fall outside autonomous agency model. CINDE is a not-for-profit association and, as such, is completely independent from the government.

All four of these agencies garner high-level support, from both the Government and the private sector, with substantial private sector representation on their Boards of Directors, and strong mechanisms in place for inter-agency coordination:

- **IDA-Ireland** is an agency of Forfas, the national advisory body responsible for the development of industry policy and competitiveness strategy in Ireland, under the purview of Department of Enterprise, Trade and Employment, which is equivalent to a Ministry of Industry and/or Economy. IDA-Ireland is a sister agency of Enterprise Ireland and the Science Foundation Ireland. While Forfas operates as the strategic umbrella organization, the three sister agencies act as implementation arms and closely coordinate with each other and with Forfas on the development and implementation of policies to support private sector competitiveness. Forfas and its agencies are supported at the highest levels of Government and have been mandated as the guardians of Ireland’s private sector. IDA-Ireland and its sister organizations all have a strong private sector orientation, as well. With the exception of the the Chairman and CEO of IDA-Ireland and a representative from the Department of Enterprise, Trade and Employment, the remaining Board members are all private sector representatives. IDA-Ireland’s CEO also sits on the Board of Forfas, which ensures coordination at the strategic, as well as operational, level.
- Singapore’s **EDB** is established under the Ministry of Industry. Like IDA-Ireland, EDB’s Board is heavily oriented toward the private sector—with the exception of the Chairman and Managing Director of the EDB and two Deputy Ministers, the Board is dominated by private sector representatives (12 out of 16). The EDB also benefits from an International Advisory Council that is chaired by the Prime Minister’s office (currently the Deputy Prime Minister) and made up of Presidents, CEOs and Chairmen from leading multinational corporations, providing the agency with high-level political support and guidance from the international investment community that it targets, enabling it to ensure its economic strategies remain relevant and effective.

Singapore EDB's International Advisory Council

Chairman: Teo Chee Hean, Deputy Prime Minister and Minister for Defense

Deputy Chairman: Koh Boon Hwee, Chairman, Yeo Hiap Seng Ltd.

Members:

Anand G. Mahindra, Vice-Chairman and Managing Director, Mahindra Group

Andrew Witty, Chief Executive Officer, GlaxoSmithKline

Ferdinando Beccalli-Falco, President and Chief Executive Officer, GE International

Fumio Ohtsubo, President, Panasonic Corporation

George W. Buckley, Chairman, President and Chief Executive Officer, 3M

Gerard Kleisterlee, President and Chief Executive Officer, Royal Philips Electronics NV

Hirosasa Yonekura, President, Sumitomo Chemical Co Ltd

Jack Ma, Chairman, Alibaba Group

James Canton, Chairman and Chief Executive Officer, Institute for Global Futures

John-Paul Broeders, Chairman of Executive Board and Chief Executive Officer, Royal Vopak

Peter Löscher, President and Chief Executive Officer, Siemens AG

Ratan N. Tata, Chairman, Tata Group

Robert A. McDonald, President and Chief Executive Officer, Procter & Gamble Corporation

Rob Routs, Executive Director, Downstream, Royal Dutch Shell PLC

Steven R. Appleton, Chairman and Chief Executive Officer, Micron Technology Inc.

Taizo Nishimuro, Advisor to the Board, Toshiba Corporation

Tarek Abdul Aziz Sultan, Chairman and Managing Director, Agility

Timothy Draper, Managing Director, Draper Fisher Jurvetson

Tomson Li Dongsheng, Chairman and Chief Executive Officer, TCL Corporation

William A. Hawkins, Chairman and Chief Executive Officer, Medtronic Inc.

Wolfgang Ziebart, Former President and Chief Executive Officer, Infineon Technologies AG

Yasuchika Hasegawa, President and Chief Executive Officer, Takeda Pharmaceutical Co Ltd

- **CzechInvest** operates under the Ministry of Industry and guided by a Steering Committee, where 4 of the 11 members are from the private sector. The Steering Committee advises the agency on long-term goals and strategies. At its inception, CzechInvest did not, in fact, garner high-level political support, given widespread circumspection within the Government about the role of FDI and fears that foreign investors would acquire the nation's assets —or “the cheap” and fears that state “intervention” to support FDI would interfere with free markets and hurt domestic suppliers. CzechInvest's experience demonstrates that image building of the agency is often as important as image building of the country. To create and implement its offer, CzechInvest worked to create a positive image of the agency and its purpose to the government, the public and the investors. Jan Havelka, the agency's first CEO, expended substantial energy to change public opinion of the role of FDI and to garner the high-level support needed to successfully fill CzechInvest's legal mandate. The Steering Committee members were carefully chosen with this mission in mind, and promoted consensus on the important role of FDI in the Czech Republic's newly emerging market economy. Today, CzechInvest also has close ties to the private sector, beyond its Board membership. For example,

CzechInvest's Challenge to Win

During CzechInvest's early years, the agency forged ahead to create programs to attract FDI, in spite of the Government's ambivalence. The staff worked hard to prove they were useful. CzechInvest's top management recognized the need to build up strategic influence in the Government and other administrative bodies. A strong relationship was eventually developed through routine interactions, such as regular requests for advice from other Government leaders, regular briefings to the Government, and clear articulation of its own objectives.

Source: Adapted from “Competing for FDI”, a MIGA-FIAS Research Project,

CzechInvest has entered into a formal partnership with the private sector's Association for Foreign Investment to implement a joint project to support FDI to the Czech Republic.

- **CINDE** is, again, relatively unique, given its non-governmental status. It is governed by its private sector members of a General Assembly and Board of Directors, ensuring that its focus remain oriented toward supporting private sector development in Costa Rica. Despite CINDE's private sector orientation, it has garnered strong political support from the Government of Costa Rica. Based on its rapid success in jumpstarting investment into Costa Rica, CINDE eventually supplanted the "official" investment promotion agency, the Center for the Promotion of Exports and Investments (CENPRO), an autonomous agency under the Ministry of Foreign Trade. CINDE continues to receive a high-degree of political and popular support, without constraints imposed by governmental bureaucracy or politics.

Table 6: Comparative Institutional and Governance Frameworks

	GNIA Georgia	IDA-Ireland Ireland	EDB Singapore	CINDE Costa Rica	CzechInvest Czech Republic
Legal Status	Autonomous gov't agency	Autonomous gov't agency	Autonomous gov't agency	Private, non-profit association	Autonomous gov't agency
Oversight	Ministry of Economy	Department of Enterprise, Trade and Employment	Ministry of Industry	Not applicable	Ministry of Industry and Trade
Board	Public	3 public, 9 private	4 public, 12 private	Private	7 public, 4 private

Similar to IDA-Ireland, EDB and CzechInvest, GNIA is established as an autonomous government agency under the Law on Legal Entity Under Public Law (1999). As such, GNIA is authorized to obtain, transfer or mortgage immovable property under its ownership; obtain loans; act as a guarantor; and may receive funding from the State budget, as well as from operational income, grants and aid.

In terms of governance, GNIA operates under the purview of the Ministry of Economy, which supervises the agency and is authorized to appoint GNIA's Chairman. The Law on Georgian National Investment Agency provides for a Supervisory Council, a quasi Board of Directors, whose membership has been, to date, all representatives from the public sector, including representatives from key Ministries and Government agencies, including the Ministry of Economy, Ministry of Finance, Ministry of Agriculture, and Ministry of Energy, among others, under the chairmanship of the Prime Minister. A new Supervisory Council has recently been formed, bringing in four private sector representatives, though it is expected that the public sector members will remain in the majority.

Despite the high level Supervisory Council, the level of support to GNIA remains in question. Despite the fact that all the key GoG actors currently sit on GNIA's supervisory board, the GoG has so far taken an approach to investment promotion that largely sidelines the agency and prevents it from developing serious investment

promotion capacity. A number of actors within the GoG have played an active role in investment promotion over recent years, including the President, the Prime Minister, and key line Ministries, such as the Ministry of Energy and Ministry of Agriculture—sometimes in coordination with one another but often independently. In practice, Georgia’s current framework for investment promotion can best be characterized as *ad hoc*. There is no systematic mechanism in place to ensure that investor contacts made by the other state actors are handed off to GNIA in a timely fashion—consequently real opportunities to attract investment are potentially lost due to a lack of institutional follow-up. There is also a culture of high turnover, both in GNIA’s leadership and staff, the latter due in part to the generally low government salaries (though some staff are hired on contract outside the civil service pay scales). This presents an enormous obstacle to training and developing sustainable capacity.

3.2.2 INVESTMENT PROMOTION MISSION AND OBJECTIVES

Foreign investment is not an end in itself, but a means to support economic development. Foreign investment can contribute to a host economy in a number of ways—large-scale job creation, value-added job creation, technology transfer and promotion of innovation, economic diversification, sector modernization/upgrading—which can vary by sector, the source of investment, as well as by individual company strategies. The definition of “success” in terms of investment promotion is, therefore, not limited to sheer volume, but may also depend on more qualitative factors. Successful investment promotion efforts must therefore be developed in the context of a country’s policy objectives and overall development strategy, and evolve with that strategy as it changes over time or needs to adapt to external factors.

Table 7: FT Survey on Effectiveness of Investment Promotion Techniques

	% of IPAs using	Ave. score of effectiveness
Aftercare services for existing firms	100%	4.1
Sales representatives overseas	75%	4.0
Inward investment targeting	13%	3.5
Investment web site	100%	3.4
Inward FDI missions	63%	3.3
Outward missions	63%	3.3
Conventions, exhibits	100%	3.1
Direct mail	63%	3.0

Each of the four leading promotion agencies presented here has a specific mission and objectives, tailored to their respective national development goals. In the case of **IDA-Ireland**, for example, its mission has evolved over the years, as the national development strategy has shifted up the value chain. Ireland’s

*“IDA-Ireland will maximize the impact of FDI in the transformation of Ireland into a **global hub for innovation and commercialization**, bringing new employment opportunities and economic benefits for all its people by sustaining and winning **high quality investment**. In collaboration with other stakeholders, IDA-Ireland will ensure Ireland remains a uniquely attractive environment in which multinational companies can grow.”*

National Development Plan for 2007-2013, which calls for increased investment to promote the creation of high-paid jobs in knowledge-intensive sectors of the economy, provided the framework for IDA-Ireland's current mission.

IDA-Ireland, in its *Horizon 2020* strategy, has also put in place specific targets, which have likewise evolved over time to reflect the progressive addition of new sectors, technologies and business models—from FDI in manufacturing in the 1970s, Ireland's early years of economic transformation, to IT-enabled investment in the 1980s, to financial services in the 1990s, and more recently to innovation and research and development in the 2000s and beyond.

EDB's Host to Home Strategy

"Home for Business"

"Home for Innovation"

"Home for Talent"

Singapore's **EDB** has a broader mission to "enhance Singapore's position as a global hub for business, investment and talent" and to "create for Singapore, sustainable economic growth with vibrant business and good job opportunities." The

EDB's mission is realized through its *Host to Home* strategy and the Government's broader agenda to position Singapore as a **Global-Asia Hub** that together seek to position Singapore "as a strategic business location for global companies and Asian enterprises to grow their businesses, **innovate**, as well as **access and develop talent**, addresses a critical need for these companies."

CzechInvest's own mission and objectives have likewise evolved over time to align with broader national development priorities. While the agency's early focus was on Greenfield investments in value-added manufacturing, the current strategy and mission is targeted at supporting the national *Economic Growth Strategy* by enhancing **competitiveness, innovation and exports**.

CINDE's current mission is "[t]o contribute to the country's development through the attraction of Foreign Direct Investment" in order "[t]o achieve sustainable growth in a number of Foreign Direct Investment projects in areas that have proven to be competitive in Costa Rica, by generating income, employment, **linkages, technological transfers and knowledge** for the benefit of all Costa Ricans."

In comparison to the examples above, the GNIA's organizational mission and objective are currently very broadly defined. It is not clear what development objectives the current mission is expected to fulfill. Meetings with senior leadership within the GoG noted the absence of a clearly articulated economic development strategy for the Georgian economy. Successful investment promotion must, by nature, be strategically focused and cannot aim to support the development of "all industries" Discussions highlighted a number of potentially competing objectives, such as employment generation, technology transfer, and export development. A more clearly focused economic development agenda for Georgia would provide the strategic grounding for investment promotion efforts, whether by GNIA or other governmental (and non-governmental) bodies.

"Our vision is to work with international investors and Georgian businesses to facilitate long-term partnerships and to contribute to a strong, robust economy across all industries. We will do this by continuing to promote sustainability and competitiveness of Georgian businesses in international trade and transit."

3.2.3 SCOPE OF SERVICES

Another key factor of IPA performance is the effectiveness of its functions and services. Most IPAs offer a **core set of services** that are linked to the broad phases of an investor’s investment decision-making and implementation process—i.e., image building, investment generation, investment facilitation and post-investment services/aftercare. These services are typically offered free-of-charge to investors in recognition that investment promotion is a public good that requires strategic investment by the government in order to succeed. The prioritization and mix of these functions undertaken by an IPA should reflect the investment environment that it operates in and its promotional objectives.

3.2.3.1 IMAGE BUILDING AND AWARENESS

Most investment promotion agencies engage in various image building activities—such as advertising, road shows, and investor forums—as part of a large mix of services. While most IPAs engage in various image building activities, agencies have utilized such approaches with the objective of changing the image of the country as an investment destination (Wells & Wint, March 2000), rather than as a means of generating investment directly. For example, **IDA-Ireland** launched an advertising campaign early on to promote Ireland as a destination for mobile investment. IDA-Ireland has, once again, turned to image building in the wake of the global financial crisis and the fallout in Ireland, targeted at the US market. IDA-Ireland is capitalizing on new social media, in addition to traditional media aimed at CEOs, to get the word out. In the wake of the recession in the mid-1980s, the **EDB** advertised to remind the investment community that Singapore was still an attractive destination for doing business. **CINDE** did rely heavily on such techniques early on and was disappointed in the poor response rate of investors. By 1987, **CINDE** shifted to more direct techniques that more rapidly paid off.

Table 8: Best Practice IPA Functions and Services

Investor’s Investment Phase	IPA Function/Objective	Key Activities and Services
Identify potential investment locations	Image Building Create the perception of the country as an attractive investment location	<ul style="list-style-type: none"> • Advertising and branding • PR events • Marketing campaigns /road shows • Investor forums, trade shows • Hosting inward investment missions • Outreach to journalists and business partners • Web site and campaigns
Narrow down potential locations to a high-potential location for investment	Investment Generation Generate investment leads in targeted sectors	<ul style="list-style-type: none"> • Identification of target sectors • Identification of target investors, companies • Direct mailing, telephone and web campaigns • Company visits, direct selling • Seminars for targeted investors
Make an investment decision and implement investment	Investment Facilitation Convert an investment lead into an actual investment	<ul style="list-style-type: none"> • Information provision • Sector analyses; cost and other data • Coordination of site visits • Identification of local partners, suppliers • Identification of potential sites • Assistance with government approvals; troubleshooting
Operate and expand business	Post-Investment Services (Aftercare)	<ul style="list-style-type: none"> • Assistance with obtaining all registrations,

	Ensure that investors are operating successfully, facilitating future reinvestments/expansions and helping attract new investors	permits, licenses required to obtain site, facilities and begin operations • Troubleshooting investor problems and issues • Ombudsman function • Policy advocacy to enhance investment climate
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3.2.3.2 TARGETED INVESTMENT GENERATION

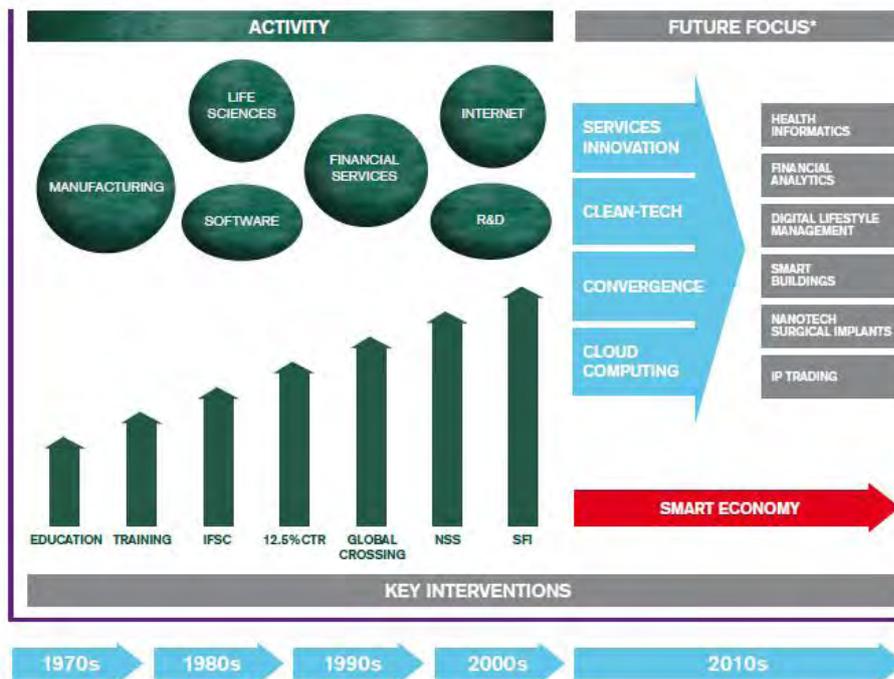
Evidence suggests that targeted investment generation is far more effective in attracting inward investment. Targeted investment generation activities have proved to be the most cost effective (requires more time and expertise rather than money) and successful approach to generating investment leads. An important characteristic of the best performing IPAs is the focus on a few high-potential sectors to focus investment promotion efforts, around a well defined promotion strategy. Too often, IPAs are pushed into promoting multiple sectors, spreading resources and reducing impact. Effective agencies are able to build a deep knowledge base on priority sectors through industry research and building linkages with the industries. Building this internal expertise enables an agency to act autonomously from firms, sector associations and other interest groups.

Sustained efforts are essential for success given that it typically takes 18-24 months from the first contact with a company to become an investment project and the intense competition for FDI. Results in investor targeting are only achieved after a concerted period of pro-active lead generation over a number of years. Experience suggests that a minimum of two years are required for targeted investment promotion to achieve results. Typically, 3,000 investment prospects yields 2-5 realized projects (Loewendahl, November 17, 2009).

All four of the best practice models presented here rely heavily on targeted promotional strategies, which they have evolved over time to align with their mission and overall national economic development objectives. **IDA-Ireland** has recently launched its *Horizon 2020* strategy, which highlights how its targeted promotional strategy has evolved over time, from an early focus on manufacturing to today's focus on forward-looking technologies and innovation. IDA-Ireland also target specific markets for investment generation, through a network of 18 overseas offices concentrated in North America, Europe and East Asia.

Similarly, Singapore's **EDB** investment targeting strategy has evolved over time. In the 1970s, the EDB built Singapore into a regional manufacturing hub, with the aim of creating employment. As Singapore reached full employment by the end of the decade, and increasing competition emerged in the region for basic manufacturing, the EDB shifted its focus to technology-intensive manufacturing and services, encouraging the relocation of basic manufacturing to neighboring Malaysia. Today, the EDB targets a sophisticated range of next-generation industries, such as aerospace engineering, alternative energy, medical technologies, and biotechnology, with a focus on attracting investment from China, India, and Japan.

Figure 5: IDA-Ireland’s Horizon 2020 Strategy for Investor Targeting



CINDE targets sectors that can best leverage its skilled labor base and clean energy resources, including IT-enabled services, and advanced electronics and medical device manufacturing and engineering. CINDE’s primary target market is the United States.

CzechInvest, the most recent newcomer to investment promotion, has also reoriented its targeting strategy, moving away from manufacturing and assembly, to align with the national *Economic Growth Strategy*, which targets greater investment in innovation and technology related investments, including aerospace, nanotechnology, cleantech, advanced electronics and mechanical engineering, and research and development—sector profiles have been developed to provide investors with all the relevant sector-specific information that is required. CzechInvest currently targets investments from the US, EU, China and Japan.



3.2.3.3 INVESTMENT FACILITATION

Investment facilitation is a critical service to turn investor interest into concrete investment. Investment facilitation includes a variety of services, including planning and executing site visits, providing up-to-date information on the investment environment, coordinating visits with existing investors, facilitating contacts with other government agencies, guidance on location alternatives, recruitment and training, and the like. An important characteristic of proactive IPAs is the use of an account executive—a single point of contact for an investor. Eighty-eight percent of top IPAs always have inquiries handled by a single person throughout the entire life

cycle of the inquiry—i.e., initial inquiry, site visits, negotiations, start-up, and operation. **Invalid source specified.**

Investment facilitation may also include a one-stop shop or service to assist in licensing and permitting, which can be a daunting task for foreign investors unfamiliar with the investment environment. In practice, one-stop shops are often difficult to implement and due consideration should be given to the

Internal Systems for Consistently Good Facilitation

1. Make facilitation a priority within the overall strategy, including training and dedicating an adequate proportion of staff
2. Maintain the equipment and practices to be easily reached and to quickly return calls and emails
3. Demonstrate professionalism and dynamism through the Web site with frequent news updates of importance to investors
4. Follow detailed guidelines on the content, style, timeframe, and quality assurance of inquiry responses.

Source: Extracted from “Investment Promotion Essentials,” Investment Climate in Practice, World Bank’s Investment Climate Advisory Service. September 2009.

willingness of other government agencies to delegate decision-making powers to the one-stop shop, otherwise there is a danger that it simply becomes a one-*more*-stop-shop. Alternatives to one-stop-shops include other inter-agency mechanisms to speed the approval process and to provide a formal feedback loop between the IPA, the investor and the responsible government agency.

IDA-Ireland, EDB, CzechInvest, and CINDE all provide a broad portfolio of free services to facilitate the investment process:

IDA-Ireland’s services include the provision of information and statistics on key business sectors and locations within Ireland, assistance in setting up a business in Ireland, introductions to local industry in Ireland, government, service providers and research institutions, and advice on property solutions for international investors. IDA-Ireland publishes a regularly updated publication on “*ital statistics*”, with a wide breadth of information for investors on the investment climate and factor costs. IDA-Ireland provides seamless service to investors through the marketing and operational process, with account executives specialized in specific industries to optimize the investor experience. Each account executive also specializes in different regions of the country, to act as an internal resource on regional location conditions and options.

The **EDB’s** organizational structure is also industry based to provide end-to-end services to investors, including sector-specific information, one-stop investment facilitation, including assistance with registration and permitting, securing infrastructure and manpower, and facilitating linkages with the local business community. The EDB has recently launched a new initiative to partner more closely with business associations and chambers of industry to better facilitate investment, particularly small and mid size foreign companies that may require extended assistance in the set-up process (Singapore EDB, 2010).

CzechInvest’s Investment Projects Department is the principal arm responsible for facilitating investment, in coordination with the Marketing Department and the Industrial Properties and Regions Department. After an investment project has been specified, the Marketing Department hands off investors to the Investment Project’s Department, where a project manager is assigned to work with the potential investor throughout the site-selection and preparation period of the investment project.

CzechInvest has an impressive online catalog of documents that provide updated information on the investment environment, sector information, and other information of interest to investors, as well as an online supplier database. Other services offered include tailor-made visits to the Czech Republic, handling of investment incentives, business property identification, supplier and joint venture partner identification, liaising with government and municipal bodies, liaising with already established investors, general assistance until the start of operations, and liaising with service companies in the Association for Foreign Investment that offer a wide range of services to smooth entry of foreign investments.

CINDE, as a non-governmental body, provides a somewhat narrower range of investor facilitation services, given its lack of formal mechanisms to facilitate registration and permitting. CINDE nevertheless provides investors with a broad range of support services at no cost, including assistance in the site selection due diligence process by providing detailed information on the country and its advantages, and organizing customized investment agendas; and meeting the investor's needs, arranging meetings with service providers, Government organizations, universities, real estate brokers, attorneys, accountants, industrial parks, and office parks.

Georgia's GNIA is modelled, in principal, to deliver a similar range of services to investors, but in practice its ability to facilitate investment remains limited. GNIA does offer a number of basic services free-of-charge to potential investors, including the provision of research and analysis on Georgian markets, information on business opportunities, guidance on setting up businesses, introductions to Georgian businesses and authorities, and the identification of potential Georgian partners. In practice, due to high staff turnover and limited resources, GNIA's ability to deliver such services is inconsistent. The current Law on State Promotion of Investment provides for investor facilitation services on a for-fee basis (except in the case of designated —special importance investments” over Gel 8 million and approved by the Government, which instead are subject to a financial guarantee equivalent to two percent of their investment:

“The Agency shall be entitled to represent an investor in his relationship with the administrative authorities and other persons. To this end an agreement shall be made between the investor and the Agency, providing for the scope of representation. By virtue of the agreement made between the investor and the Agency, the Agency shall assist the investor in obtaining all the licenses and/or permits, necessary for conducting investment activities, also in discharging other representative authorizations. The agency shall discharge the aforementioned powers on a paid-for basis, except for the cases involving special importance investments. The amount of fee for rendered services shall be specified by the Ministry of Economic Development of Georgia.”

The draft Strategy for GNIA foresees a continuation of this policy to provide information services to investors on a for-fee basis, though it suggests that such fees would only be charged for information beyond the basic data. The provision of investment facilitation on a for-fee basis is not aligned with international best practices and run counter to investors' expectations. The Strategy suggests that

GNIA would choose a consulting company to which to refer investors on an exclusive basis. While it is common for investment promotion agencies to tender out or partner with consulting firms on various studies and the like (and co-brand any publications), the proposed strategy goes beyond this model and would potentially create an environment that impedes private sector competition.

3.2.3.4 INVESTOR AFTERCARE

Aftercare or post-investment services are essential to not only retain existing investors, but facilitate expansions and attract new investors—a satisfied investor is a country’s best ambassador to new investors. Aftercare services or post-investment activities function have been shown to be among the most effective investment promotion techniques utilized by IPAs by a recent survey conducted by the Financial Times. In some countries more than 50 percent of FDI is conducted by existing investors through re-investments, diversification or expansion projects. The definition and scope of aftercare services may vary greatly from agency to agency. Aftercare services may fall into three broad categories (see (UNCTAD, 2007)), with the specific services that interest investors varying over the lifespan of a project:

- Post-investment facilitation services, including assistance in permitting and licensing;
- Operational services, such as recruitment, training, and identifying local suppliers; and
- Strategic services, such as linkage programs and advocacy.

An important subset of the aftercare function, falling under strategic services, is policy advocacy and the “investment ombudsman” function, where IPAs play a significant role in enhancing the investment climate of a country. As entities trusted by both government and the business community dealing with investors, IPAs are in a unique position to understand investment environment issues confronting investors.

Table 9: Aftercare Service Provision over Investment Lifecycle

	Short-Term	Medium-Term	Long-Term
Post-Investment Facilitation	<ul style="list-style-type: none"> •Permits and permissions to operate or expand • Work permits for foreign nationals or spouses •Utility connections •Introductions to service providers (banking, legal and accounting services) 	<ul style="list-style-type: none"> •Obtaining certifications (product, professional) •Standards approvals (food, drugs, other products) •Intellectual property rights protection 	<ul style="list-style-type: none"> •Collaborate with public sector on provision of transport and other infrastructure
Operational	<ul style="list-style-type: none"> •Find office space, factory, recruit staff 	<ul style="list-style-type: none"> •Staff training, new premises, improved connectivity, local supply chains 	<ul style="list-style-type: none"> •Local R&D, university collaboration

Table 9: Aftercare Service Provision over Investment Lifecycle

	Short-Term	Medium-Term	Long-Term
Strategic	<ul style="list-style-type: none"> • Nurturing local suppliers to international standards • Linking the senior managers and directors of the TNC into high-level and national policy and influencing networks • Policy advocacy 	<ul style="list-style-type: none"> • Encouraging and supporting the development of new, upgraded, higher value added products and services of strategic value to the firm's network 	<ul style="list-style-type: none"> • Services that support firms in becoming strategic leaders, centers of excellence

Source: Adapted from UNCTAD, —Aftercare: A Core Function in Investment Promotion”, 2007.

An important subset of the aftercare function, falling under strategic services, is policy advocacy and the —investment ombudsman” function, where IPAs play a significant role in enhancing the investment climate of a country. As entities trusted by both government and the business community dealing with investors, IPAs are in a unique position to understand investment environment issues confronting investors.

Few IPAs provide the full breadth of aftercare services, given resource constraints, strategic direction of their promotional efforts and other factors. A joint survey by the United Nations Conference on Trade and Development (UNCTAD) and the World Association of Investment Promotion Agencies (WAIPA) in 2006 provides an indication of the most common aftercare services that are provided (see Table 10).

Table 10: Services Provided by IPAs

Aftercare Service	Share of Respondents (%)
Maintain database/provide information on existing investors	89
Assist expansion projects, identify suitable property, locations, site options	85
Offer strategic information on regional and national initiatives	79
Maintain database/offer information on local services and suppliers	77
Policy advocacy working groups with private sector members	71
Business network support	68
Assistance in identifying suppliers, customers and competitors	66
Overseas networking through embassies	66
Complaint window for investors	63
Permanent hotline for day-to-day problems	61
Regular surveys among existing investors	61
Advice on recruitment, skills availability and training support	60
Facilitate placement of ex-pat staff and family	48
Dispute resolution services	44

Source: UNCTAD–WAIPA survey on IPA aftercare services, 2006.

The four IPAs showcased here demonstrate the range of aftercare services that may be provided. In Ireland, for example, **IDA-Ireland’s** Aftercare Division takes a proactive approach to servicing existing investors, by going to each firm every 3 months to see if there are any problems that the agency can solve. IDA-Ireland spends large amounts of money on the —aftercare” division, but this pays huge dividends in terms of retention and expansion of investment. Between 2005 and 2009, 47 percent of all project supported by IDA were expansion projects.

CzechInvest has invested heavily in its Aftercare Department in order to provide investors with a broad range of support, all provided free-of-charge, including:

- Support and advisory services for expansions and reinvestments;
- Consulting services in the area of state aid and EU structural funds;
- Assistance with supplier selection;
- Help with identification of a suitable location;
- Mediation of contact with government bodies (local authorities and state administration);
- Mediation of cooperation between investors and universities;
- Assistance with handling HR issues, including visa procedures;
- Support for HR development in the regions;
- Organization of official events such as conferences, seminars, working breakfasts and meetings of investors;
- Help with overcoming specific day-to-day business difficulties; and
- Provision of feedback from investors to government authorities in order to improve the Czech business environment and legislation.

Why Aftercare? Expansion and Diversification of Honeywell in Czech Republic

Sales & Distribution

1962–Sales representation via Austrian branch
1991 –Honeywell Service and Engineering, s.r.o.
1995–Honeywell spol. s.r.o.

Research & Development

1993 –Prague Technology Center / Laboratory)
2003–Global Design Center in Brno

Manufacturing Units

2001–Ademco Brno
2002–Mora Aerospace a.s.
2002–Honeywell Controls s.r.o.
2003–Security Products (OlympoControls)

CzechInvest has offices in each region of the country in order to more effectively service existing investors. CzechInvest's success is exemplified by its experience with Honeywell. Out of the total of 182 investment projects mediated by CzechInvest in 2007, expansions accounted for 112 (62 percent), or 71 percent of the financial volume.

CINDE's aftercare services include specialized support to companies that wish to expand or diversify operations in the country. The aftercare service also includes consultations with

the business community on the frequency and degree of difficulty of obstacles encountered by investors. Recurring problems are presented to the relevant authorities and the process of removing identified obstacles is monitored by CINDE-coordinated, sector-specific working groups especially established for this purpose.

GNIA's current approach to aftercare services is *ad hoc* in nature, given its resource constraints. Aftercare is currently provided by the promotional staff on a demand-driven basis. GNIA's current draft Strategy envisages that the agency will expand its service offerings to existing investors, including those that have not been supported by GNIA in the past, in an effort to expand and diversify investment in the country.

–A country and its IPA cannot just attract a foreign investor and leave it alone. They have to provide aftercare in order for investors to prosper and become spokespeople in favor of the country.”

- Julio Acosta, former Managing Director, CINDE

The Strategy foresees a more proactive approach to identify investors and to undertake regular outreach efforts. While laudable, the strategy falls short from developing a fully-established portfolio of aftercare services. While resource constraints are likely to curb the breadth of services that could be offered, due consideration should be given the primary types of aftercare services that are most commonly provided, based on the UNCTAD-WAIPA survey and the portfolio of services offered by CzechInvest and CINDE.

3.2.4 HUMAN RESOURCES AND FINANCIAL CAPACITY

World-class delivery of core investment promotion functions and services must be backed by sufficient resources, both human and financial. UNCTAD conducted a survey of Investment Promotion Practices, suggesting that, in 1999, annual IPA budgets worldwide averaged USD1.1 million per annum and 21 percent of the agencies surveyed had budget more than USD5.0 million per year. In 2010 values, this translates into USD1.5 million and USD6.7, respectively. The outcomes, in terms of jobs generated, vary considerably from agency to agency. Different studies have found that the cost of promotion per job created ranges anywhere from USD250-300 per job, up to as high as USD10,000 per job. The following provides a closer view of the human and financial resources dedicated to investment promotion by each of the agencies under review and the outcomes, in terms of new jobs created.

IDA-Ireland has a substantial contingent of professional personnel on staff. Excluding administrative, legal and accounting staff, IDA-Ireland employs approximately 60 staff based in Ireland—more than 40 of which are in investor-facing roles, including investment promotion, investor facilitation and aftercare—as well as 12 to 15 additional promotional staff stationed in its overseas offices. IDA-Ireland's operational budget dedicated to promotional efforts and associated administration and management amounted to an average USD310 million per annum between 2001 and 2007, generating some 79,000 jobs over the period. This translates into approximately USD 4,000 per new job created in the economy. While the cost per job is relatively high, the jobs that have been created are heavily oriented toward high-value added industries, such as IT and financial services, and medical equipment.

Table 11: Employment in IDA-Ireland Supported Sectors

	2005	2006	2007
Pharmaceuticals	1,148	803	1,076
Computer, Electronic & Optical Equipment	632	1,751	543
Medical/Dental Instruments & Supplies	2,202	1,272	1,280
Metals & Engineering	743	730	568
Miscellaneous Industry	518	363	237
International & Financial Services (incl. Software)	6,893	7,342	6,684
Total	12,136	12,261	10,388

Source: Forfás Annual Employment Survey 2009.

CzechInvest has a total of around 150 staff, including those responsible for the administration of industrial zones. Given its large staff contingency, total annual operating costs for investment promotion and administration are on the order of USD12 million per annum (excluding the costs associated with industrial zone operations), based on 2008 and 2009 data, the only years for which consistent data is available. Approximately USD2 million of this budget is to operate its overseas offices. In 2008 and 2009, this translated into an average cost was around USD 1,200 per job created—and approximately one quarter of all jobs created was for university-level graduates. In terms of investment value, CzechInvest yielded USD108.50 per each dollar spent on investment promotion and investor servicing, suggesting an impressively high-level return on investment promotion funding.

While recent data is not readily available for **CINDE**, it has been acknowledged to have achieved an impressive level of cost-effectiveness and development impact on the national economy. An early independent evaluation of CINDE's activities concluded that the IPA had influenced positively nearly *80 percent of their claimed foreign investment* between 1986 and 1990 and 61.3 percent of the USD566 million of FDI flowing into Costa Rica during those years (Lanza, 1995). Based on early estimates of effectiveness, it has been estimated that the promotional cost declined over the first 5 years and by the 5th year averaged a meager \$285 per job created—a testament to what can be achieved with a modest but well targeted program of investment promotion and investor servicing.

GNIA, compared to the above agencies, has a very small staff. With a total of 23 employees, only four staff members are dedicated to investment promotion, with an equivalent number engaged in events planning and management, which has been the bread-and-butter of the agency to date. GNIA has also now been given the mandate to undertake export promotion with only two additional staffing slots. GNIA's budget is commensurately modest, at under USD500,000 per annum, though its 2011 budget has been increased to USD1.5 million, with the bulk dedicated to non-staff related promotional efforts. In terms of effectiveness, there are no reliable indicators to assess the level of investment that was facilitated directly by GNIA, but given the overall level of foreign investment in recent years and the large number of other actors engaged in investment promotion, it is presumed to be relatively low by international standards.

4. RECOMMENDATIONS

4.1 SUMMARY FINDINGS

FDI promotion is a high priority for the GoG and the private sector. The benefits and need for employment generation, increased foreign investment and exports are recognized and supported. The President and the Prime Minister have been leading these efforts, taking an active part in promoting investments abroad as are the main economic ministries such as Ministry of Economy and Sustainable Development (MoESD), Ministry of Environmental Protection and Natural Resources (MoEPNR), Ministry of Agriculture (MoAg) among others. The enthusiasm and commitment to promoting FDI is commendable and there is a shared vision regarding the importance and need for these efforts.

The purpose of this section is twofold. This first objective is to analyze capacity of the existing promotional network within Georgia and the GoG. The second objective is to provide recommendations for the creation of a framework and capacity that will ideally allow GNIA to play a significant role in investment promotion while also ensuring a framework for cooperation among the promotional stakeholders with clearly established roles and responsibilities to promote FDI in a coordinated manner. This framework is designed to fulfill the policy objectives of employment generation, investment generation and export promotion through effective investment promotion.

Successful FDI promotion requires a process. The methodology for FDI promotion has been proven and continually improved upon over the last thirty years since Ireland pioneered this field in the 1980s. Along with the Irish Industrial Development Authority (IDA-Ireland), other highly successful agencies in Singapore, Malaysia, Scotland, Costa Rica and others share a common theme in all of their promotional efforts. Global experience by leading investment promotion entities is clear in that the most important characteristic for successful promotion is that there be a clearly established promotional structure that follows a systematic process and methodology.

Successful investment promotion requires the ability to provide a full spectrum of services to potential investors that starts with Image Building, then Investor Targeting and Lead Generation, Investor Facilitation and Servicing, including the provision of Custom Research and Information, and finalizes with Investor Aftercare. While this methodology is not “rocket science”, it does require a long-term commitment as well as sufficient financial and technical resources. It also requires the ability to develop and sustain an institutional capacity capable of absorbing this methodology and delivering it in a systematic and consistent manner.

While this may seem fairly straightforward and simple, there are many examples of countries that have failed in their efforts since they were unable to implement and maintain this type of promotional structure. Unfortunately, Georgia has historically been plagued by the same problem. During the last 7-8 years the investment promotion agency has been subject to staff turnover, under and inconsistent funding, lack of clarity regarding its mandate and an inconsistent role in the country's promotional efforts.

The current approach to investment promotion in Georgia does not reflect international best practices. Despite technical and financial assistance provided by the USAID BCR project and others, GNIA remains a weak and largely ineffective IPA. In FIAS' most recent rating of IPA effectiveness, the GNIA was rated as —average,” well below IPAs of even regional competitors such as Armenia, Moldova, Macedonia and Croatia. As shown in the table below, the GNIA lacks almost all the required elements to be an effective agency. Progress has been slow and meager. Little progress can be observed relative to the prior findings of an Institutional Needs Assessment Report from the World Bank Group's Multilateral Investment Guarantee Agency (MIGA) developed in October 2005.

Table 12: Benchmarking Georgia's Investment Promotion Framework

International Best Practices	Georgian Practices
Organization	
Clear legal status, mandate and autonomy	GNIA is established by law and has defined functions, but lacks operational autonomy and required power
Mixed board of directors with majority private sector members	GNIA lacks a board; until recently there has been no private sector participation. Recently an Advisory Council has been integrated with the participation of 4 private sector members
Strong political support and commitment; link to highest level of government	GNIA lacks a direct link to highest levels of government; supervisory ministry is weak—neoliberal philosophy of GoG has resulted in lack of support
Adequate funding/independent budget	GNIA's new operating budget is only USD 1.5 million and much of this is allocated to non-staff expenses; it lacks control over its budget
Professional leadership and staff compensated at private sector levels	GNIA experiences high leadership and staff turnover due to low pay levels and lack of autonomy
Strong investment promotion network	Various stakeholders—associations, zone developers, other ministries, GNIA—engaged in promotion are not well integrated
Defined results measurement system	Lacking
Functions/Services	
Image building	Main focus of GNIA in support of broader GoG efforts
Robust investment promotion strategy and promotion plans	Lacking—mainly an opportunistic and scattershot approach; lack of sustained follow-up of contacts and events
Investment targeting/proactive investment generation	Lacking—primarily opportunistic and reactive promotion; GNIA organizes “invest in Georgia seminars” and supports activities of office of president and PM
Investment facilitation and aftercare	GNIA provides information and match-making on a limited basis; is a one stop shop only on paper

GNIA's relatively weak capabilities are partly a reflection of a limited budget, frequent leadership changes, small staff, and weak systems. GNIA's services are limited to responding to investor queries, disseminating general materials and supporting the promotional efforts of the president, prime minister and various ministers. GNIA simply lacks the ability and resources to undertake a targeted and sustained

investment promotion effort or service existing investors, and is primarily reactive. GNIA's efforts are also not adequately integrated with the promotional efforts of Georgian private sector associations, business intermediaries, industrial zone operators and others. Moreover, the allocation of GNIA's modest budget is not well targeted, with the majority dedicated to image building related advertisements and events, rather than targeted promotion. Given the high knowledge-intensity of targeting investment, the increased funding would be better spent on increasing staffing and related training and capacity building, rather than on expensive events and media campaigns that have had only limited impact to date.

GNIA is currently focusing on developing —projects” for presentation to investors. This focus has been tried by many agencies as well as international donor assistance programs (UNIDO) with limited success. No one knows more about investors' needs and requirements than the investor him/herself. Project promotion assumes parameters, technology and markets that easily differ from investor's needs or requirements. It is make much more sense to promote sectoral —opportunities” to investors and they will quickly identify their areas of interest for their own due diligence. An exception to this is in areas or sectors with unique resource endowments or supported by governmental infrastructure projects. Hydro electric generation and transmission is a good example where the geographic distribution, scale and objectives of projects can be developed for discussion with potential investors. Another example is with tourism projects or downstream clusters surrounding development poles.

The existing legislation specifies that GNIA can charge for specific services provided to investors. Many agencies have tried and failed with this approach for several reasons:

- It is not common practice to charge for these services. Investment promotion is viewed as a public service.
- Hundreds of competing national and subnational agencies currently are providing these services free of charge. It would be illogical to assume that investor would be willing to pay for services that everyone else is provide at no cost.
- International experience has shown that the few services that can be fee based represent a minor contribution to agency costs and are not commensurate with the negative image they produce.

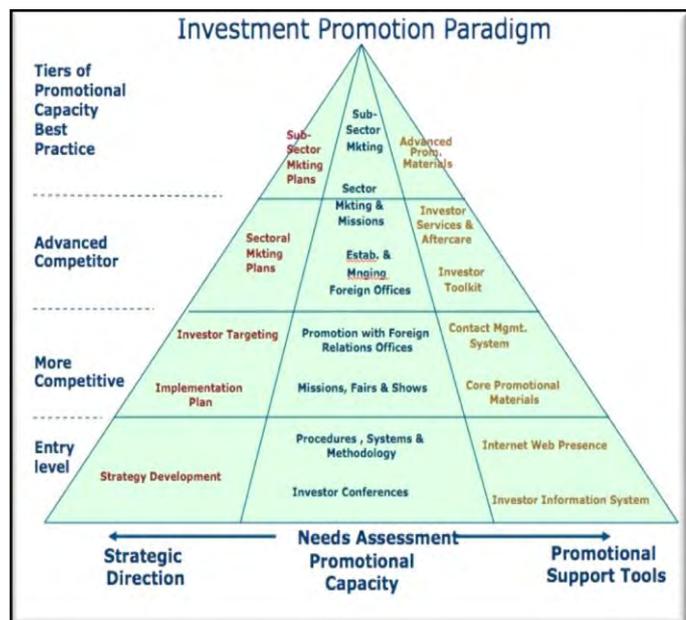
GNIA's limited effectiveness is also due to its lack of autonomy, limited mandate and lack of high-level political support. Senior government officials see GNIA as playing a back-office function, primarily supporting the activities of the President and Prime Minister—a —workhorse” rather than a lead agency. While the President and Prime Minister are very active in attending various promotional events and seminars, these are primarily image building activities, with little effective follow-up or focused impact. Once the high level contact has been established with potential investors, a systematic and sustainable follow-up is not provided. Advisors, Ministries and in some cases GNIA, provide this follow up. This confuses investors since they do not have a unified point of contact and run the danger of receiving different and conflicting information.

4.2 ENHANCING GEORGIA'S CAPACITY FOR INVESTMENT PROMOTION

The following sections present two alternative scenarios to improve investment promotion in Georgia. Under the first scenario, GNIA is mandated with full leadership over investment promotion efforts in Georgia, covering the full scope of services for investment promotion. Under the second scenario, GNIA focuses on building itself as a center of excellence in investor facilitation and aftercare, while other GoG entities continue to take the lead in promotion.

4.2.1 SCENARIO 1 - FULL REFORM TO VEST GNIA WITH MANDATED LEAD

Given the structural limitations imposed by the existing institutional framework for investment promotion in Georgia, the ideal case scenario would be to implement a structure that would be able to respond to the policy objectives and achieve the massive impacts that would launch Georgia into a new era of growth and prosperity. This structure would be a full spectrum reform that would create the mandate for effective investment promotion and establish an integral solution. The chart at the right outlines the levels of capacity development that are required of leading IPAs. It is clear that GNIA is positioned partially in the entry level and in other areas in the more competitive level. However, there is a long way to go for it to become an advanced competitor or a best practice IPA which is what is required to fulfill Georgia's FDI objectives and targets.



While this is the international best practice approach, from the tone of the meetings during the assessment mission, there does not seem to be an appropriate climate for this reform. It is hoped that through increased results and impact from FDI in the future, this might open the doors for this type of ground up restructuring.

4.2.2 SCENARIO 2 – BUILD CAPACITY OF GNIA AS CENTER OF EXCELLENCE IN INVESTOR SERVICING AND AFTERCARE

Given the existing GoG structure for investment promotion and assuming that a major structural change is not planned in the near term, the second alternative is a more pragmatic approach to outline a promotional framework with all of the main actors. This structure does not require reforms and yet effectively positions GNIA within the existing framework and move it to a more relevant and value added role. In this proposed framework, GNIA would be positioned as a center of excellence to provide key value added services to support and increase the service delivery capacity of the national investment promotion efforts.

This approach focuses on developing GNIA capacity in several areas that are lacking within the existing GoG promotional approach; thereby effectively, positioning the agency where it is most needed, and can add the most value. These areas are the following:

- Analysis and research capacity to perform market intelligence and sectoral briefings with the information required for effective proactive and targeted promotion;
- Investor facilitation and servicing capacity to attend investors in a systematic and methodologically appropriate manner;
- A single point of contact to provide overall coordination of investor inquiries and follow-up; and
- Investor aftercare capacity to retain existing investors and grow their presence in Georgia.

In addition to developing GNIA's internal capacity, it is also necessary to develop the roles and relationships for all of the actors in the promotional process and bring them together into a promotional network. The purpose of the promotional network is to establish a network of actors who work together in a coordinated manner and within a systematic process to achieve a common goal. In the promotional network, each participant plays a direct or indirect role yet seldom does one single actor assume all of the roles.

For the promotional network to function it is necessary to define the roles and responsibilities of all entities involved in the promotional process. The combined promotional effort is similar to a "relay race" in track and field. Members of the team need to play their respective parts in the race while ensuring a safe and secure hand-off of the promotional baton to the next team member. Success is not dependent upon who runs the fastest but rather keeping a consistent pace and not dropping the baton during any stage of the race. The same would apply to the different actors who are directly or indirectly involved in attracting FDI to Georgia. They actors need to have clarity in their roles as well as the ability to function together in a coordinated manner as a team. The following table outlines these main roles and their respective responsibilities.

Table 13: Promotional Network Roles and Responsibilities

Stage of Promotional Process	Person / entity	Role	Activities
Lead generation / Awareness building / Image building	President, Prime Minister or Economic Ministries	Establish high level political or diplomatic contact with target countries	<ul style="list-style-type: none"> • Promote investments as offset to concessions and procurements • Promote downstream and upstream investments in the context of large infrastructure projects
Lead generation / Awareness building / Image building	GNIA market intelligence department	Give high levels officials the information and tools to enable them to effectively contribute	<ul style="list-style-type: none"> • Provide high level officials and their advisors with solid investment promotion information briefs, talking points and collateral materials prior to all outreach

		to the promotional effort and leverage their position in the target market	missions and international events <ul style="list-style-type: none"> • Develop a thorough briefing and promotional rationale for each sector for each target market
Targeted investment promotion	GNIA market intelligence department	Identify key investor groups in target countries so that high level officials can open doors and establish initial contacts	<ul style="list-style-type: none"> • Provide investment mission members with targeted potential investors to include in activities and mission protocol • Facilitate the logistics of arranging investor meetings during missions
Proactive promotion	GNIA	Investor follow-up and promotion to achieve an investor site visit to Georgia	<ul style="list-style-type: none"> • Receive hand off from promotional missions • Establish contact with potential investors • Provide follow-up and additional information and research services • Keep high level officials and foreign offices updated on progress
Investor facilitation	GNIA	Facilitate all promotional activities to ensure investor receive the information and services for them to make an investment decision	<ul style="list-style-type: none"> • Develop site visit • Provide full site visit facilitation services during the investor visit • Incorporate key actors in the promotional network during the site visit
Investor facilitation	Key Ministries	Provide investors with sectoral briefs and policies	<ul style="list-style-type: none"> • Meeting of investors with relevant political and technical personnel • Answer sectoral and policy questions
Investor facilitation	Private Sector Representatives	Provide investors with a private sector perspective of the opportunities for FDI in Georgia	<ul style="list-style-type: none"> • Meeting of investors with relevant associations and chambers • Answer sectoral and business climate questions
Investor servicing	GNIA	Provide investors with assistance in establishing their investments in Georgia	<ul style="list-style-type: none"> • Recommend service providers • Provide local information and brief on cultural sensitivities • Mentor investors until they are fully established
Investor servicing	GNIA Supervisory Board	Advocate for reduction of barriers to investment and assistance to overcome problems	<ul style="list-style-type: none"> • Investor problems are handed off to representatives from relevant ministries for their resolution
Investor aftercare	GNIA	Provide investor aftercare	<ul style="list-style-type: none"> • Develop investor database • Periodically visit investors • Promote expansions or diversifications • Communicate leads to high level officials for their assistance

4.3 PROPOSED EPI WORK PLAN INTERVENTIONS

In order to assist the GoG to address the weaknesses in investment promotion, it is proposed that EPI undertake a number of interventions. Table 14 provides a summary of these actions. The following table outlines the proposed activities for EPI assistance to GNIA.

Table 14: Proposed EPI Work Plan Interventions

Action Name	Action Type(s)*	Resources Required
Training course for GNIA staff and key members of promotional network (PM and Ministry Advisors)	STTA, Event (T)	Expat investment promotion expert(s)
Provide technical assistance to improve the GNIA governance structure	STTA	Expat investment promotion expert(s)
Develop strategy for targeted promotion by sectors and subsectors and potential markets	STTA	Expat and local market researchers
Develop plan for market and sector specific image building	STTA	Expat and local market researchers
Train selected diplomatic and commercial attaches in targeted countries	STTA, Event (T)	Expat investment promotion expert(s)
Develop proactive promotion plan based upon targeted promotion and GoG plans and priorities	STTA	Expat investment promotion expert(s)
Improve investment promotional collateral materials (country presentation (written and PowerPoint), country briefing for site visits, country brochure, sector brochures, GNIA website)	STTA, Proc (S)	Expat investment promotion expert(s), local PR experts; graphic design and printing services
Enhance capacity for fairs and shows (manual and training)	STTA, Event (T)	Expat investment promotion expert(s)
Training given to promotional staff on custom research for investors	STTA, Event (T)	Expat investment promotion expert(s)
Develop capacity to organize and facilitate investor site visits (GNIA staff trained, templates developed)	STTA, Event (T)	Expat investment promotion expert(s)
Develop Investor Information System with the answers to investor questions and information requests	STTA, Proc (S)	Expat and local market researchers; IT/website development
Develop investor servicing capacity	STTA, Event (T)	Expat investment promotion expert(s)
Develop database of potential and existing investors for aftercare services	STTA	Expat investment promotion expert(s), local IT consultant

* Action types include:

STTA = Short-term Technical Assistance

Event (T) = Training event

Event (NT) = Non-training event (e.g. discussions, teambuilding, etc)

Proc (C) = procurement of commodities (e.g. computers)

Proc (S) = Procurement of services (e.g. a subcontract to a printer for printing services)

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