FDI promotion in Ukraine: Recommendations for operational structure

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Objective of the policy briefing

- The antecedent policy paper PP/04/2010 and policy briefing PB/10/2010 explained the success factors and the process of building up an agency for the attraction and promotion of FDI to Ukraine
- The recently established State Agency for Investment and Management of National Projects of Ukraine (SAINP) is currently appointed for the task of FDI promotion (among other tasks)
- This policy briefing provides recommendations concerning the operational structure of the FDI promotion department of SAINP
- Key questions:
  - Division of tasks and responsibilities between SAINP headquarter and its regional branches
  - Division of tasks and responsibilities between SAINP and local administrations
  - Workflow Management

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Approach for deriving recommendations

- Recommendations are based on the analysis of international best practise and professional experience
- Focus: Foreign greenfield investments and foreign expansion projects
  - Entrepreneurs, self-determined and self-responsible
  - Plan to set up a new or expand an existing factory resp. commercial unit
  - Note: No ready-to-invest projects
- Key criteria for assessing the applicability of international best practise and experience to the situation in Ukraine:
  - **Easy to implement** (on basis of existing organisational structure)
  - **Not expensive** (taking into account fiscal constraints)
  - **No distortion of competition** (equal treatment for all foreign investors)
  - **Effective** (concentrate on measures with the highest impact)

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Guiding principles

- Limitations of State Executive Authorities in Ukraine such as SAINP
  - Fiscal constraints
  - Limited ability to attract and retain qualified and experienced staff
  - Limited incentives for staff for outstanding performance
- High incentives for local administrations (city mayors) in Ukraine to attract foreign investors
  - Share of tax revenues remains at local level
  - Direct impact of FDI to local employment, infrastructure, welfare
- Therefore: Role of SAINP as facilitator for contact between investor and local administrations
- Important: SAINP should not provide commercial investor services
  SAIP should not influence investor's decision

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Organization of FDI agency/department should follow the value chain of investment attraction

Investment Promotion

- Classical advertising
- Economic promotion
- Investment Marketing
- Event Marketing
- PR (press & media)
- Multipliers
- Industry-specific Marketing

Investment Attraction

- Establishment & development of customer relationship
- Lead Generation
- Contacting potential decision makers
- Support in decision making. “Bidbook”
- Networking

Investment Servicing

- Investm. facilitation
- Support in finding the right location
- Administrative support
- Subsidies and financial incentives (taxes)
- Recruitment and human resources

Support /Up-selling

- Consulting services for established companies
- Introduction to networks
- Support of expansion projects
- Offering additional services
- Increase customers satisfaction
- Retention management

Investment attraction → **aftercare**

Mainly national level | **Mainly regional level**

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Market overview of FDI projects as a starting point

FDI projects can best be analyzed with the *FDI markets database* (Financial Times).

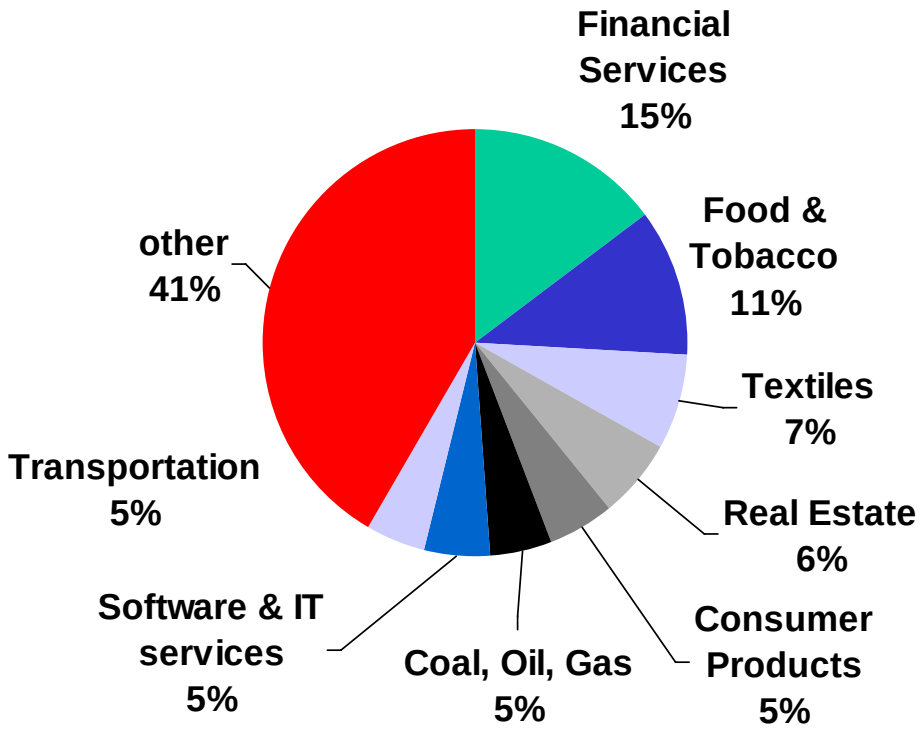
- Since 2003 approx. 850 FDI projects to Ukraine have been recorded in the fDi markets database, averaging 97 cases per year (greenfield & expansion projects, no M&A deals or pure financial investments).
- 50% of all FDI come from Western Europe, 33% from the rest of Europe, 10% from North America.
- Top source countries in decreasing order have been: Russia, Germany, USA, Poland, Austria, France, UK.
- Top source cities: Moscow, Düsseldorf, Vienna, Paris, London, Warsaw, Tallinn.
- The absolute no. of projects from Western Europe has increased until 2005 and since then stabilized at around 60 projects p.a.
- 50% of all projects go to just 6 cities: Kiev 30%, Odessa, Lviv, Kharkiv, Dnipropetrovsk, Donetsk (between 2% and 7% each).
- Leading investors have been Metro (Germany), Inditex (Spain), PKO Bank Polski (Poland), Raiffeisen Zentralbank (Austria) and Lukoil (Russia).

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Industry analysis of FDI projects as a starting point

The FDI markets database shows that Ukraine is strong in FDI projects in certain industries.

FDI projects into Ukraine by sector



- More than 50% of 876 tracked projects take place in just 7 industries:

Sector	Trend
1. Financial Services	↘
2. Food & Tobacco	↗
3. Textiles	↗
4. Real Estate	→
5. Consumer Products	↗
6. Coal / Oil / Natural Gas	→
7. Software & IT services	→

- Trend extrapolation and expectation of FDI intelligence are shown in arrows above.
- Compared to other MEE countries Ukraine is strong in FDI projects in Financial Services, Coal / Oil / Gas and Food/Tobacco. Weaknesses in Industrial Machinery, Equipment & Tools and Real Estate.

Source: FDI markets database

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Operational structure: Overview

Tasks of the FDI promotion workflow	Division of responsibilities			
	Out-sourced	SAINP, FDI promotion depart.		Local author.
		National level	Regional level	
a) Internet portal for re-active marketing		X		
b) Image building/country branding		X		
c) Investment generation (lead generation, targeting)	(x)	X		
d) Investor inquiry processing		X		
e) Country visit preparation & assistance		X	X	X
g) Investment facilitation and investor services				X
h) Aftercare		(x)	(x)	X

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a) Internet portal for re-active marketing

What is it?	• Special FDI website, separate from SAINP website • Basic information about the country's economy and business environment • Easy to reach "single point of (first) contact": telephone hotline
Who is responsible?	• SAINP national level
What are typical issues?	• An analysis of 100.000 visitors shows that a website visitor spends on average 5 min. and reads 3 pages. • Investors typically use a webpage to get a quick overview and first information. Then an investors seeks direct contact via e-mail or telephone to get precise information useful for his project and ask for specific details. • Worldbank research shows that successful IPAs have websites, where a visitor can access a list of priority sectors in two or fewer clicks
What are the success factors?	• Catchy brand name, easy-to-find link • Webpage is well-arranged; multiple languages, English (complete!) is a must. • Don't give to much information and don't construct too many pages! Clarity, a good structure of web presence and easy to find basic information are key • Information about regions and industries in Ukraine should be easy to find with a few clicks. Frequent (at least monthly) news updates of importance to investors shows professionalism and dynamism
Conclusions for Ukraine	**An effective webpage is the most important tool for re-active marketing. It should be the first priority for implementation** **Consider using existing sources, e.g. from the USAID "LINC" project**

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b) Image building/country branding

What is it?	• Image campaigns to build a strong reputation • Presence at international FDI exhibitions, industry fairs and location fairs (MIPIM; EXPO REAL) • Use of the internet and social media to build a strong brand
Who is responsible?	• SAINP national level
What are typical issues?	• Companies all over the world are increasingly confronted with IPAs. Many countries expand their IPAs. National and regional IPAs become more active in the international markets • Consequently countries have to differentiate. What exactly are you good at? Are you good in textiles? What exactly in textiles? • Then campaigns have to be developed that are authentic, surprising and can be remembered easily
What are the success factors?	• Very important to develop first a clear value proposition: What is exceptional in Ukraine? What exactly are the strength? • In what direction should the economic development go in the future? • Industry & image campaigns must speak the language of investors • It takes a long time to build a good image. But it can be destroyed very quickly
Conclusions for Ukraine	**Can be very expensive. Effectiveness and efficiency difficult to evaluate -> Low priority for implementation. Start with low financial resources in selected areas**

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c) Investment generation (lead generation, targeting)

What is it?	• Targeting specific sectors and companies with a view to creating investment leads • Project initiation, identification and influence on investors' country choice • Highly specific mailings to make contacts and to generate leads • Company visits, pitches
Who is responsible?	• SAINP national level • (regional branches when it comes to expansion projects of existing investors)
What are typical issues?	• Identification of potential sectors, sub-sectors and investors • Direct mailings, telephone campaigns, investor forums, seminars, individual presentations to targeted investors • Highly focused pro-active marketing to specific sub-sectors! No mass-marketing! • Evolution of narrow cast targeting to generate successful leads • Trade fairs give a good opportunity to get to know industry relevant players. The exhibitor list gives a good start • A typical case is identifying companies with plans to invest in Eastern Europe. Another case is initiating projects and to react as a strategic partner to investors
What are the success factors?	• Companies receive much more phone calls from IPAs today then a couple of years ago. (Peter Lemagnen, Oxford Intelligence on MIPIM 2011). Mass marketing, that is not highly specific, won't be successful. • Targeting and segmentation can only be done with a lot of industry and expert knowledge.
Conclusions for Ukraine	**Expensive and time-consuming for success. Requires highly qualified and experienced people -> Low priority for implementation or consider outsourcing**

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d) Investor inquiry processing

What is it?	• Companies making a strategic investment decision and comparing different macro locations, often seek contact to an IPA to gather information • Support in decision making; “Bidbook” and providing timely and accurate information
Who is responsible?	• IPA national level, partially regional knowledge has to be included
What are typical issues?	• It is not unusual that companies send a detailed questionnaire with all the information they want to receive within 2 days time • Questions can range from market entry to settlement, legal & tax issues, visa & immigration, finance & subsidies, industrial strengths & clusters, market size, quality of infrastructure, costs of doing business. Sometimes it's not investors seeking contact to an IPA • Consultants, real estate agents or “invisible men” approach IPAs as an agent and are secretive about the investor • Usually a member of an industry team should act as the single contact person for companies asking for information (account manager). A general fast rack unit for smaller cases and secretive cases can make sense
What are the success factors?	• IPAs have to react quickly to inquiries. They have to understand the customer's industry and needs. This can best be done in industry specific teams • All kinds of information along the value chain should be readily available for investors. Good IPAs respond to every inquiry, but have priority sectors on which they focus the bulk of their efforts
Conclusions for Ukraine	**Very important because it's a Must. When companies call for information request, IPAs don't get a second chance -> Immediate implementation**

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e) Country visit preparation & assistance

What is it?	• Visits of foreign business delegations to Ukraine need to be prepared and assisted • Organization of investor field trips in Ukraine is key
Who is responsible?	• SAINP national level, SAINP regional level, local authorities (city mayors)
What are typical issues?	• An effective overall program also includes company visits • For foreign investors already in Ukraine act as testimonials • Very often Investors want to get to know several regions. That means, headquarter has to organize the country visit, but regional expertise of the relevant regions and cities has to be brought in
What are the success factors?	• A good organization of investor field trips in Ukraine is key • National and regional expertise have to be combined • Language support
Conclusions for Ukraine	**Important and not very expensive (investors pay for their own expenses). Important to set up an interesting country visit in short time -> Immediate implementation**

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f) Investment facilitation (investor services)

What is it?	After investor has chosen a specific location (city) • Support with finding building plot • Assistance with registration, licensing, permits, approvals • Support investors by avoiding traps of corruption • Less about strategic decision making but rather helping to implement projects
Who is responsible?	• Local authorities (city mayors) • SAINP headquarter and regional branches as backup, support local administrations on their request
What are typical issues?	• Investors need support when choosing a location. For the macro decision (which region?) the national IPA should support. To help with the micro decision (which piece of property?) local and regional knowledge has to be phased in. • A typical investor can specify, what kind of location he needs: What kind of space (office space, industrial real estate)? How many square meters? What quality (city center or science park?) At what price?
What are the success factors?	• Important to have industry teams and dedicated account managers. Consultants of an IPA need to speak the “language” of investors. • IPAs should help in all these topics. IPAs need experts in the areas finance, real estate, human resources.
Conclusions for Ukraine	**Very important because it's a Must. Even when strategic decision has been made, projects can failure because of problems in implementation**

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g) Aftercare

What is it?	• A dedicated aftercare program targets existing companies in Ukraine, especially those with potential for growth and expansion projects. Focus can be on foreign ownership with a threat of re-location out of Ukraine • It's the same as in private companies, where it is about acquiring news customers but first of all making existing customers satisfied
Who is responsible?	• Local authorities (city mayors), SAINP regional level • For very big companies (key accounts) the headquarter can provide additional support if applicable
What are typical issues?	• Companies within Ukraine wanting to expand face similar problems as companies new in Ukraine: Finance and subsidies, location choice, hiring experienced staff, administration and permits etc. • IPA can make life easier for existing companies and promote economic growth • Many FDI projects are initiated by companies already in Ukraine
What are the success factors?	• Important to develop an aftercare program to keep companies satisfied and to help them expanding within Ukraine • Focus especially on foreign owned companies in Ukraine
Conclusions for Ukraine	**Important second step to initiate an aftercare program. Difficult task though, to establish an effective program. Strong synergies to FDI projects. Should be started in the long run**

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Summary

- Most important tasks for SAINP headquarter
  - For immediate implementation:
    - Easy-to-read Website with contact details for telephone hotline
    - Fast and reliable investor inquiry processing, mainly providing information and answer specific questions
  - For future implementation:
    - Direct acquisitions of investors
    - Aftercare program
    - Image building/country branding
- Most important tasks for SAINP regional branches
  - For immediate implementation: Support investors with their visits to the local investment sites
- Most important tasks for local administrations
  - Investment facilitation services

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International trends of organizing FDI promotion might be of relevance for Ukraine in the future

	Past	Present / Future trends
Typical legal forms of institution	Public body, state agency, ministerial subunits	Autonomous public bodies Some are wholly or partially private (PPP)
Typical financing	State budget	State budget + fundraising from private sector **But**: No economic income such as consulting fee, commission
Typical employee	Civil servant	Industry expert with experience in private sector
Typical employee compensation scheme	Standard civil servant salary	Competitive salary; Incentive pay **But**: Forbidden to take money or gifts from investors!
Typical value generation model	All services “in-house”	Outsourcing of some activities Network of partners
Typical mandate	Wide mandate: Export promotion, tourism, SME development, etc.	Clear focus on foreign direct greenfield and expansion investment promotion. Resist “mission creep” into other public functions

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Case study I: German System of IPAs

Short description	• Germany has one national body, Germany Trade and Invest (GTAI). • Each federal state has its own regional IPA, often organized as a PPP. • Many larger cities and counties also have a Economic Promotion Units.
What is the key experience?	• GTAI is focused on investment attraction and trade support, a combination that is advised by UNCTAD (2009). The state IPAs (e.g. Berlin Partner, NRW Invest, Invest in Bavaria) focus on FDI attraction, too, and partially are in charge of aftercare. M&A support is not an issue. • This system is supposed to combine national and regional expertise: GTAI generates FDI leads, does promotion on international trade fairs and gives information about Germany via webpage and personal contact. As soon as a decision has been made for one of the 16 regional states, the lead is handed over to a state IPA. The regional IPAs then is supposed to resolve specific regional questions concerning subsidies, property, location search and local authorities. • In practise GTAI and regional IPAs work together. But there is competition and overlap: International fairs are visited by both, GTAI and regional IPAs representatives. Targeting and establishment of customer relationships are being done independently.
What are success factors?	• PPP seem to be a success factor since it gives IPAs more independence from government. Inclusion of private sector knowledge advantageous. • Clear discrimination between headquarters' and regional offices' tasks & incentives for headquarter and regional offices to co-operate effectively are essential. • A "one-stop-agency" is advantageous. Investors in Germany want a single point of contact and a dedicated contact person

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Case study II: Lead Generation

Short description	• Lead Generation is the task to identify promising FDI projects as well as companies that might be interested to carry out an FDI project. The task is to identify companies with good prospects but also to initiate projects expansion projects for companies.
What is the key experience?	• Formerly some German State IPAs have tried cold calling companies abroad. Since there are more than 30 million businesses in Western Europe and North America, but only 8.000 FDI projects a year, chances are roughly 1:4.000 to call a promising company. The broach approach of cold calling has not been very successful. • Today instead of mass marketing successful IPAs choose a pro-active approach with a narrow cast targeting. To come up with a target list, in-depth research has to be done to find out what sub-sectors in which countries might be interested in an FDI project into the home country. • Some work can be outsourced to consultants to identify leads in target countries and to arrange appointments with companies abroad and on industry fairs. • Pro-active marketing doesn't result in quick wins, though. It takes time to initiate projects. Experience of leading IPAs in Germany show that in 25% of all successful projects companies directly approached the IPA. 40% of the leads derive from network contacts, recommendation of other firms etc. Just 20% are a direct result of trade fairs, presence on conferences and fact finding trips abroad. • Combination with Aftercare is increasingly successful. Foreign companies already in Ukraine might lead you the way to promising leads and expansions projects.
What are success factors?	• Good networks and access to databases important to do lead generation. Expert- and industry specific knowledge important to understand industries and their investment behavior.

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Case study III: Information request

Short description	• Companies already determined to invest but in the decision making process of choosing a location often seek contact to an IPA to gather information.
What is the key experience?	• Especially larger companies carry out a systematic process of comparing and evaluating different locations in different countries and regions. • Not unusual that they send a detailed questionnaire about the information they need. • According to the Worldbank 70% of IPAs are missing out on foreign investment by failing to provide investors with accurate and timely information. (IFC, Sept 2009) • Investment Promotion Agencies can only deliver the information in a short period, when they hold key information and the answers to typical questions on stock. • Research of Red Hot Locations (London) shows key factors for investment decisions: Talent, infrastructure, quality of life, industry proposition, growth opportunities. IPAs have to be prepared to give detailed information about this. • To effectively deal with customer requests, industry teams should be set up. They can build up industry specific knowledge and take care about dedicated clusters.. • Sometimes instead of investors it's consultants, real estate agents or “invisible men” approaching IPAs and being secretive about the investor.
What are success factors?	• IPA can make a difference when they manage to deliver all the relevant information on time. By that they can demonstrate a “welcome culture”. • IPAs have to react quickly to inquiries. They have to understand the customer's industry and needs. • All kinds of information along the value chain should be readily available for investors. This can best be done with specific industry teams.

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Case study IV: Investment Facilitation and Location Tours

Short description	• After making a decision in favor of a country, investors need assistance to find the right location and to get their business started
What is the key experience?	• IPAs know their country better than foreign investors. That's why they can give valuable assistance to investors and create a welcome culture. • IPAs can influence the location choice of investors. Sometimes investors have a first thought about the right location, but can be convinced that a different region / location is even more suitable. Location tours are helpful to show the investor different production sites or office locations. • For foreign investors the administration and bureaucracy of another country is complicated, confusing and time-consuming. That's why they like a single point of contact. IPAs should be organized as one-stop-agencies. The principle “One-face-to- the customer” must be followed by all means. That means one project manager is the single contact person that deals with an investor. • The project manager within the IPA creates – when needed – a team of experts. The project manager calls other experts and administration officials when needed. • After the investment project is finished, companies shouldn't be left alone. There is potential for aftercare and later on expansion projects.
What are success factors?	• When investors want to get to know a region and its locations, strong cooperation between the national level (headquarter) and the regional branches is needed. • A single point of contact for each investor has to be established to make it easy for the investor and to create a “welcome culture”. • Even after the investment decision it's important to help investors implementing their project. “Additionality” (project faster, bigger, in another quality) is the key word.

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