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 **Archives**

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Bank Administration and Policy - Promotion and Protection of Private and
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THIS FILE IS CLOSED AS OF

DECEMBER 1971.

FOR FURTHER CORRESPONDENCE SEE:

1972 - 1974.

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RECORDS MANAGEMENT SECTION
January 1972

CROSS REFERENCE SHEET

COMMUNICATION: Memo

DATED: January 16, 1969

TO: Mr. McNamara

FROM: Mr. Demuth

FILED UNDER: P&B- Industry

SUMMARY: Re: Proposed Study of Bank Group Policies and Organization in Industrial Sector, Including Promotion of Private Investments

*Investm - Prom. & Prot.
x Adly - Abdel-Meguid*

Mr. P.M.Mathew

January 16, 1969

Stanley Please

Proposed Study on: "Investment Promotion for Developing Countries"
Adly Abdel-Meguid

Thank you for sending the letter and attachments on the above for comments. In fact the proposed study lies almost entirely outside the field of interest of my Division which is concerned specifically with domestic resource mobilization through the financial institutions. This study on the contrary is concerned with the mobilization of foreign funds and then largely with aspects of this problem outside of the financial institutions (see in particular, the tentative outline which is presented by Mr. Abdel-Meguid). It might, however, be of value to let John Hulley or Ugo Sacchetti see these papers for the subject matter falls within their field of responsibility.


SPlease/mds

*Inu - Rom & Put
x Lason - UNIDO*

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AUG 17 2023

PERSONAL

WBG ARCHIVES

6 January 1969

Dear Mr. Diamond,

With reference to our telephone conversation this morning, please permit me to address this note to you on a personal basis.

.....

The enclosed proposal contains the essence of an idea which has been going through my mind during the last three years that I have been working in the area of investment promotion. As you will see from the outline, the institutional mechanism by which developing countries can mobilize foreign resources is completely lacking in writings on the subject of foreign investment. I have felt that a study of the nature described might attempt to fill part of the vacuum in this area.

It would be greatly appreciated if you could kindly comment on the objective as well as on the outline enclosed. I have also asked Mr. George Baldwin of the Economic Development Institute if he would kindly give me his personal comments on the proposed study.

In the event that the comments are favourable after taking into consideration any needed changes, I may then be able to request three months' leave of absence from the United Nations Industrial Development Organization. This period is needed for travelling to both developed and developing countries in order to have face-to-face discussions with the offices in charge of such agencies. Later the material, along with that already compiled, could be put together during my free time.

The financing of the study will have to depend on an external source. The reason is that according to United Nations regulations, a staff member is not allowed to take credit for a study undertaken by him during the course of his duties.

I am sure that you agree with me that it would be rather difficult to assess the role of investment promotion agencies in attracting foreign resources. This is exactly like trying to assess the impact of tax incentives on industrial investment. Foreign investment does not flow to a developing country just because there exists an institutional mechanism in the country or fiscal incentives are available. What will be attempted is a comparative exposé of operational problems and practices of some investment

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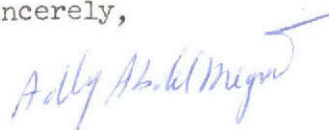
Mr. William Diamond
Director
Development Finance Companies Department
International Finance Corporation
1818 H Street N.W.
Washington, D.C. 20433

promotion agencies of certain developed and developing countries. Developing countries are ^{now} ~~not~~ getting very anxious to establish such agencies but are without having any guidelines on the experience of other countries. Even international organizations such as the Economic Commission for Africa (ECA) and the Food and Agricultural Organization (FAO) are establishing their own investment promotion centres. Also, one of the items to be discussed in the Amsterdam meeting (16-20 February 1969) is the idea of an International Investment Promotion Centre.

Looking forward to hearing from you soon, please let me thank you again for accepting to speak at UNIDO's forthcoming training programme on investment promotion. I may be in Washington in about 10 days and I shall give you a call to see if it is possible to have a short meeting with you.

All best wishes for the New Year.

Sincerely,



Adly Abdel-Meguid

Draft

A proposed study entitled "Investment Promotion for Developing Countries:
A Comparative Study of Problems and Practices."

Adly Abdel-Meguid

Background

In reviewing books, monographs or reports on economic development of developing countries, I believe all would agree on the abundance of material related to pure economic aspects of development, planning techniques and experience, project evaluation and preparation, flow of international capital to developing countries, the decision-making process behind it, its direction and its volume, etc. No one, however, could deny the dearth of material on the institutional mechanism by which developing countries are and/or could be mobilizing foreign capital, know-how and management needed for economic development, the problems involved in such a process and the experience that may be put forward for the benefit of newcomers.* The inadequacy of printed material on investment promotion techniques for both local and foreign investment is not surprising. Only recently few developing countries were conscious of the need for additional outside resources to supplement their internal resources for the process of development. Bi-lateral aid is on the decline, income from exporting traditional raw materials is diminishing, prices of imported manufactured goods relative to export prices are increasing. Developing countries are finding themselves in a situation where they have to intensify their efforts to mobilize external resources. Being aware of the efforts of developed countries in attracting foreign investment, e.g. Belgium, Canada, the Netherlands and

Republic of Ireland

*The closest example in the treatment of this aspect is "Methods of Investment Promotion for Less-Developed Countries", Office of Development Finance and Private Enterprise. U.S.A.I.D. January 1967. The most recent U.N. publications are: "Foreign Investment in Developing Countries" (E/446) 1968 and "The Role of Private Enterprise in Investment and Promotion of Exports in Developing Countries" Dirk Stikker (TD/35/Rev.1) 1968. Both discuss policies for investment promotion and recommendations for further action. None contain a detailed operational treatment of problems and practices.

the Netherlands. Some developing countries, e.g. India, Israel, Jamaica, Barbados, Trinidad and Tobago, Puerto Rico, Pakistan, Taiwan, etc. have already established investment promotion agencies at home and abroad. Others, while contemplating the establishment of similar agencies, are hampered by the lack of know-how and financial resources. They are still following the traditional approach of trying to promote foreign capital and look for know-how and management through their consular and diplomatic representations abroad. This approach was found to be inadequate for several reasons among which is that the career foreign diplomats do not "speak the same language" as the business community.

The recent interest of developing countries in looking for capital, know-how and management is evidenced by the fact that various requests have been submitted to bi-lateral and multi-lateral technical assistance agencies to establish an investment promotion programme at home and abroad as well as requesting advice concerning the improvement of the operation of existing ones.

In responding to these requests, it is clear that practitioners in the field of investment promotion are aware of the paucity of information generally available on the experience of developed as well as developing countries in this area. As a result, the sponsors of a new department or a separate agency in the home country or at capital-exporting countries do not have the opportunity to study and benefit from the experience of other operations elsewhere be it in a developed or developing country.

The proposed study is two-fold. First, it will provide general, practical guidance in the field of investment promotion at home and abroad, taking into consideration the experience of advanced countries such as Belgium, the Netherlands, Canada and the Republic of Ireland. Second, it will expose the principal problems concerning investment promotion efforts by developing countries and the approach followed to confront them.

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In undertaking the study, the aim will not be to analyse the foreign investment decision-making process. This has been ably treated in different publications and especially in the recent one by Professor Y. Aharoni, The Foreign Investment Decision Process, Harvard University Press. The objective is to examine the ways and means by which some developed and developing countries are attracting foreign capital, management and know-how, to determine the impact of their different approaches and techniques on the flow of foreign investment in their direction and to suggest solutions to the problems that may be encountered. ~~The desirability of establishing a special agency to deal with investment promotion.~~

Objectives

In detail, the proposed study may prove valuable in a number of respects:

1. Investment promotion agencies of developing countries at home and abroad serve a needed function by acting as a catalyst for the foreign investor and the various government regulatory and financing agencies. By exposing the experience of one to another, their performance may be greatly enhanced. It is hoped that the proposed study may play an important role for developing countries contemplating the establishment of investment promotion organizations similar to the pioneering role played by the books written by Mrs. S. Boskey and Mr. W. Diamond respectively in the field of development banks.
2. Helping the developing countries in their dealings with:
 - (a) International organizations, such as the United Nations Development Programme (UNDP), currently has annual resources exceeding \$150 million for pre-investment activities, ^{which} are expected to be conducive to specific investment possibilities. Making the developing countries aware of the different investment promotion problems and practices may facilitate UNDP's activities in this area.

/...

- (b) Regional development banks such as the Inter-American Development Bank, the Central American Bank for Economic Integration, the African Development Bank, the Asian Development Bank, all have keen interest in investment promotion being one of their essential functions due to insufficiency of funds at their disposal.

- (c) The International Finance Corporation (IFC) is actively involved in the field of investment promotion through two aspects. On one hand IFC sponsors a large number of national industrial development banks in developing countries (Over 24 in more than 21 countries). On the otherhand IFC does promote, under certain circumstances, a large number of projects by involving the participation of private local and foreign investors. Undoubtedly, the IFC does possess highly regarded expertise in the field of finance and investment promotion. However, the availability of a study of an actual comparative operation for investment promotion agencies in developed and developing countries may be in line with the role which the IFC is playing in the field of economic development.

- (d) There is a large number of development banks which are non-IFC sponsored. Unfortunately, some of these banks lack the necessary expertise and contacts to mobilize both local and overseas resources. Development banks have a unique position through which they can lever much larger contributions from foreign public and private institutions and enterprises for implementation of projects. The proposed study may give them an insight and added support to their promotional role.

- (e) The proposed study may give an informational and operational support to the efforts being undertaken by the Economic Commission for Africa (ECA). At present the ECA is undertaking the establishment of sub-regional industrial information and promotion centres in Africa, the establishment of an African industrial development council to provide advice and sources of capital and of liaison offices in Europe, the United States and the Far East to facilitate contact with potential investors.

3. The proposed study may also prove useful for any Eastern European country in case there is an interest to attract not necessarily capital but know-how and management in the form of joint ventures. The recent experience of Yugoslavia and Romania is a case in point.

Conclusion

It is not claimed that the proposed study will solve the problems of mobilizing foreign investment in developing countries or that the whole problem is a lack of knowledge on the institutional mobilization of foreign resources. The problem sometimes is a lack of identified viable projects. However, by understanding the institutional mechanism and the needed atmosphere by which capital, know-how and management is being mobilized and the efforts and money involved for successful operation in a very competitive market, developing countries may be induced to take a second look at their own efforts in this direction. The result may be a smoother flow of capital, know-how and management from developed to developing countries.

Tentative Outline

PART I

The Process of Investment Promotion : At Home

- What is investment promotion?
- Components of favourable investment climate.
- Incentives to reduce uncertainty to potential investors (loans - guarantee, tax-free zones, tax incentives, etc.)
- "Plausibility" studies for identified projects.
- Establishment of an investment promotion department or agency.
 - Does the situation warrant a specialized institution?
 - Organization.
 - Governmental - semi-governmental or non-governmental organization.
 - Financing.
 - Co-ordination with governmental departments.
 - Staffing - consultants.
 - Contacts with local businessmen and visiting investors.
 - Follow-up of promoted projects.
- Experience of advanced countries (Belgium, Canada, the Netherlands etc.)
- Experience of developing countries (India, Israel, Puerto Rico etc.)

PART II

The Process of Investment Promotion : Abroad

- Experience of developed and developing countries as related to techniques and tools of investment promotion abroad.
 - I Organizational Set-Up.
 - Staffing and facilities.
 - Budget and Cost.
 - Communication with home office.

II. Promotional Techniques.

- Conference, use of media, direct mail and promotion literature.
- Programme planning - elements and timing of a successful promotion programme.
- Use of promotion consultants and their cost.

III. Identification of the Prospective Investing Corporation and the Appropriate Executive.

- Sources of prospects - contacts with the governmental organization, professional publications, etc.
- Other leads to companies interested in specific projects abroad.
- Defining the corporate interest and approach.
- Identifying the appropriate executive.

IV. Project Presentations and Follow-Up.

- Selecting and preparing the appropriate information on the proposed project.
- Follow-through - providing additional information to the potential investor on a planned schedule.
- Co-ordinating with commercial banks and official agencies.

PART III

- Conclusions and recommendations.

APPENDICES

- Data on Investment Promotion Agencies of Developed and Developing Countries.
- Sample Charters.