

DECISSIVE ROLE OF PROACTIVE FDI PROMOTION POLICIES (FDI PROMOTION AGENCIES)

Marin CIOBANU

Technical University of Moldova, Moldova
ciobanu.marin@zelb.md

Abstract:

This paper examines the role of investment promotion agencies (IPA) and suggests a model of IPA for Moldova, based on the successful international experience. Creation and streamlining of national IPA activities in combination with other policy measures to increase the investment attractiveness of the country is an example of proactive policies that governments can implement to increase FDI inflows and handle the growing competition for these flows.

Key words: *competitive environment; economic growth incentives; foreign direct investment; investment promotion agencies; investment attractiveness.*

JEL classification: O16

I. INTRODUCTION

Liberalization of policies and technological changes and opening of markets create new opportunities and challenges for Transnational Corporations (TNCs), but also offer a wider range of alternative market entry models and make these companies more selective in relations with potential places for investment. The countries' capacity to provide competitive real estate assets - efficient infrastructure, skilled and productive workforce, clusters of suppliers, effective competitive environment, support and service provision institutions, has become a critical element of strategies for attracting foreign direct investment (FDI) and increasing competitiveness for developing countries. Another important component of strategies to increase countries' competitiveness is to reduce distortions and transaction costs (approvals, permissions, proceedings, hiring and firing staff, interaction with state bureaucracy, other elements that usually form the basis of such international rankings as Doing Business, etc. In such circumstances, attracting TNCs in any country requires a comparative analysis of transaction costs against other competing countries, and actions to promote the country's competitive advantages and facilitate investors.

An analysis of about high value 30,000 FDI projects showed that information and assistance provided to investors significantly influenced their decision to place investments in one country or another. A recent study by Oxford University showed that \$ 1 spent on investment promotion can bring \$ 189 in the form of FDI and \$ 78 spent on promotional activities create an additional job by foreign companies. Realizing the importance of promoting investment, countries around the world got actively involved in such activities, especially after the 90s. Currently, more than 250 national and regional investment promotion agencies are engaged in competition for attracting FDI. Their number is constantly growing, as governments around the world and regional authorities of many countries are seeking investment for job creation and economic growth incentives. The major challenge for all countries and regions in terms of decreasing FDI flows caused by the global and regional economic crisis, combined with growing competition for these flows, is for these countries to pro-actively build and promote competitive advantages of their locations. Creation and streamlining of national IPA activities in combination with other policy measures to increase the investment attractiveness of the country is an example of proactive policies that governments can implement to increase FDI inflows and handle the growing competition for these flows. It is also important for the government to develop a unique message attractive to investors, particularly in terms of the country's major competitive advantages - key elements of interest for most investors -

and to fully engage in the fight for new investment and benefits from these investments. As shown by studies on the efficiency of IPA in attracting FDI, competition between countries to attract FDI takes place only within the same geographical region, and not between countries with the same level of development, but located in different geographic regions. The same studies indicate that foreign investors first select the target region for investment, and then - the country within this region.

A TNC engaged in selecting a location for investment usually starts by putting together a long list of potential countries. This list is compiled by the executive management of TNCs or a consulting firm hired to select the location. The list usually includes from 8 to 20 countries, which can be divided into 3 groups: (i) the most popular destinations for FDI in the world; (ii) the countries closest to the locations where the investor already operates, and (iii) new destinations for FDI. This 3rd category presents the greatest opportunities for investment promotion agencies from countries such as Moldova, which do not fall into the first category, and often not in the second one. The potential investor or the consulting firm operating on its behalf can include countries whose advertising they have recently seen in the international media, countries whose IPA have been recently contacted or countries, with the representatives of which they discussed in international conferences or exhibitions into the 3rd category. Depending on the results of the cost-benefit analysis based on the comparison of investment and business climates in those countries, the long list is reduced to approx. 5 potential host countries. This analysis is usually done without visiting those countries, so the availability of information about the conditions of doing business in the country is of crucial importance. IPA that provide detailed, accurate and up to date information on their websites, which are ready to invest time and effort in preparing detailed responses to requests from potential investors and to accommodate these responses to the needs of individual investors can essentially increase the chances for their countries to be included in the "short list" for potential investors.

The next step in decision making implies visiting the countries included in the short list. Such visits include interaction with the IPA in the country. During such visits, the IPA can emphasize the benefits of their country's locations, answer investor questions, show them several potential locations for investment or liaise with potential local business partners. At the final stage, the foreign investor chooses the location depending on the existence of suitable location, the related costs, the overall quality of the business environment and the availability of incentives. IPA can also provide information about incentives and provide help in business registration process.

From figure 1, based on FDI flows we can conclude that the theoretical potential FDI flow for which the RM can compete is between 3.5 and 78 billion USD, and the main competitor countries are those in the Southeast Europe and the CIS. Moldova's competitive position in this competition compared to countries in the region, similar in size and population, is not too good. The number of investment projects attracted so far is too small compared to countries in the region. Investment promotion organizations in Moldova, which we will refer later on, in our view, failed to cope with such competition and determine attracting a sufficient volume of FDI to transform the entire economy, that FDI and MNCs bring, because neither the structure nor the functions they perform, nor the allocated budget meet the criteria of effective investment promotion agencies.

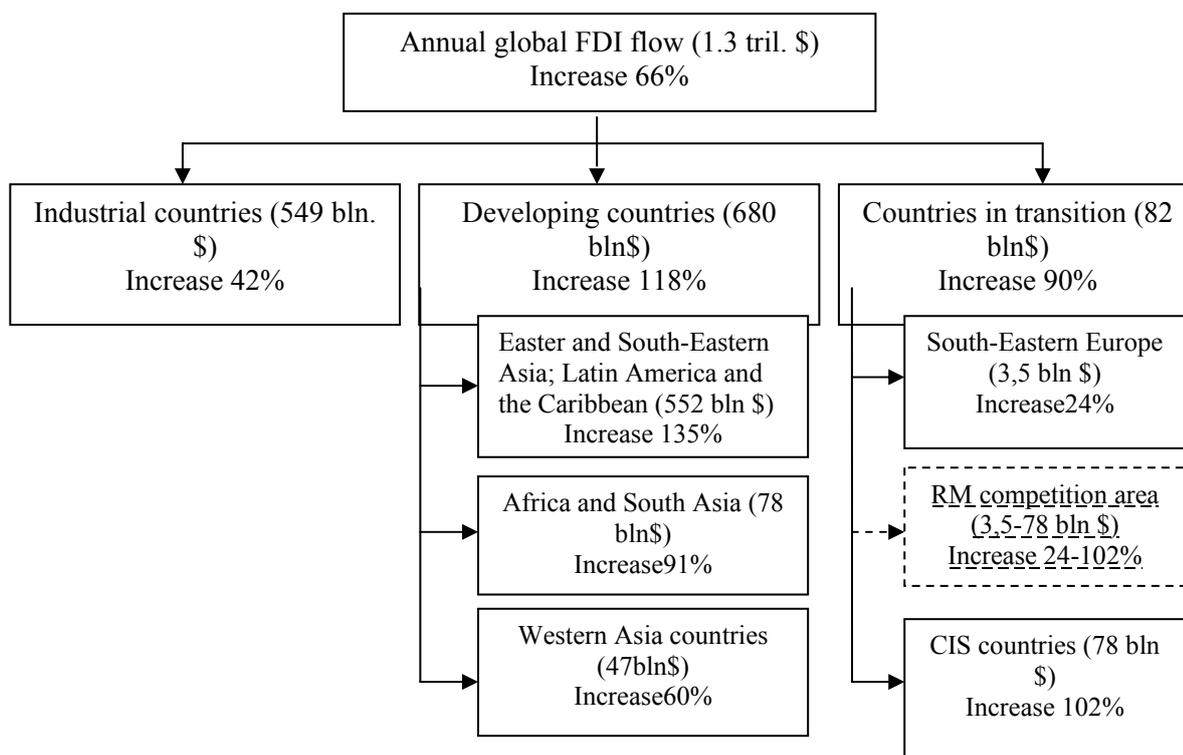


Figure 1 - RM competition area in global FDI flows

Source: Developed by the author based on WIR 2012 and Global Investment Trends Monitor, no. 11, 2013, UNCTAD

II. ROLE AND CHARACTERISTICS OF THE IPA: INTERNATIONAL EXPERIENCE

Wells and Wint (2000) define investment promotion as activities through which governments around the world are trying to attract FDI flows. According to them, such activities include: advertising, organization of investor seminars and missions, participation in business exhibitions and fairs, dissemination of literature, direct marketing, facilitation of visits of potential investors, organization of direct contacts between potential investors and local partners, assistance in obtaining permissions and approvals, drafting of project proposals, conducting feasibility studies and servicing investors whose projects have already become operational. This definition excludes incentives to foreign investors, examination / selection of investment projects and negotiation with potential foreign investors, although some IPA perform these tasks. The same authors divide investment promotion activities into four categories: (i) building the image of the country, (ii) generating investments, (iii) investor servicing, and (iv) policy advocacy. Image building activities aim to build a perception of the country as attractive location for FDI. Generating investment involves identifying potential investors who may be interested in investing in the country, developing the strategy to contact potential investors and conduct dialogue with them in order to convince them to invest. Serving investors refers to assisting investors who have already decided to invest in the country, to exploring business opportunities, business registration and its implementation. Policy advocacy activities include developing initiatives aimed at improving the investment climate and identifying the vision of the private sector on these issues.

Jacques Morisset and Kelly Andrews-Johnson (2004) define the following functions in the IPA activities:

Image building

- Advertising in financial media
- Participation in investment exhibitions
- Advertising in the industry and specialized media

- Organizing general missions for investors from other countries to the host country, or for those in the host country to other countries
- Organizing information seminars on general investment opportunities

Investment generation

- Contacting potential investors through direct mail, electronic mail or phone (telemarketing)
- Organizing industrial missions or sector specific missions for investors from other countries to the host country, or from those from the host country to other countries
- Organizing industry or sector specific information seminars
- Engaging in research at the level of companies, followed by presentations

Servicing investors

- Providing consultancy services for investors
- Assisting in obtaining of permits and authorizations
- Providing post-investment services

Policy advocacy

- Participating in policy drafting commissions
- Engaging into lobby activities
- Developing draft laws or policy recommendations
- Monitoring and reporting on investors' perceptions

Following the trend of increasing importance of IPA in attracting FDI, the number of analyses and research called upon to identify and explain how useful IPA are in attracting FDI, what the efficiency of IPA depends on, which functions the IPA must fulfill and how the structure of such organizations affects their success has also increased. We will further try to substantiate the need to reform these organizations in Moldova, based on international experience, so that they can meet the needs of investors and the challenges of global and regional competition in attracting FDI. Summarizing the results of some research works of the World Bank Advisory Service for Foreign Investments (ISAF) on the efficiency of IPA in attracting FDI, Jacques Morisset and Kelly Andrews-Johnson draw the following conclusions:

- Greater investment promotion efforts are associated with a greater inflow of FDI, along with such determinants of FDI as market size and quality of the investment climate. This conclusion is supported by many empirical studies. For instance, the same authors, based on the study of 58 IPA from different countries have calculated that, on average, a 10% increase in investment promotion expenses generated a 2.5% increase of FDI inflow. Or, in absolute terms, this means that for a typical country included in the review (median in the example), an additional expense of \$ 60,000 for promotion activities results in an increase by approx. \$ 5 million of FDI inflows. In another research, Jacques Morisset concludes that investment promotion is positively correlated with variation in FDI flows between countries. For a promotion budget of between 2 million and \$ 11 million, this elasticity is 3 times higher than in the previous example, meaning that a 10% increase of such budget results in increase of FDI inflow by 7.5 %. We will refer later to the size of the promotion budget. The same study presents evidence that, for many countries, \$ 1 spent on promotional activities bring benefits greater than \$ 1 paid in the form of subsidies or tax exemption form. The conclusion of the study, made by the author, is that the IPA are effective in influencing the decisions of investors to invest in a particular country. But their role cannot be seen as separate from the influence of determinants such as the quality of investment climate and market size. Another earlier, but more fundamental study conducted by Wells and Wint (2000), based on case studies and econometric analysis also identified a positive correlation between investment promotion activities and the level of FDI per capita. They concluded that an effective promotion program may attract some investors in the country with significantly lower costs than the benefits gained by those countries from these investments. Comparing the costs of an effective program to promote investment with the costs borne by several governments for providing incentives such as tax vacations, the authors concluded that the former is less expensive. This does not mean, however, that tax incentives play no role, but for most of the studied countries, the resources allocated for

investment promotion were identified as having the potential to generate greater benefits than the same resources wasted as tax vacations. Another important conclusion of Wells and Wint is that promotional activities are most effective when they are geared towards companies that produce for export. For companies oriented towards the domestic market of the country, the market is an attractive one because the investment for market entry cannot be equated with an investment into another location. Export-oriented companies, however, can choose from a wide range of different locations. These are the companies that should be the first target of investment promotion and incentives programs. The basic concern of the governments wanting to attract investment for the domestic market should be the domestic investment climate and market attractiveness. Attracting such investors requires fewer resources in promotional activities and incentives. For export-oriented investments, however, all 3 factors can be crucial: *the domestic investment climate, promotional activities and incentives*.

The thesis on the utility of IPA in attracting FDI is supported by Torfinn Harding and Beata S. Javorcik, who used the results of a survey covering 109 IPA in different developing countries and 31 countries where there is no IPA. Their conclusion is that investment promotion activities have led to greater FDI inflows and countries with IPA attracted 2.5 times more FDI than those with no IPA. Some authors claim that most IPA target foreign investors from specific sectors in their efforts to attract FDI, rather than foreign investors in general. The targeted promotion of investors in certain sectors is considered to be part of good practice to promote FDI, according to the same authors. They identified that sectors targeted by such activities receive 2 times more investment than the untargeted sectors. Targeted investment promotion means engaging in activities to promote standards, such as image building, investment generation, investor service and policy advocacy, but only in respect of particular industries, in contrast to engaging in such activities in respect of all foreign investors. The main idea of this promotion strategy is that a more focused message, adjusted and provided to a narrower audience is more effective than general investment promotion activities.

▪ The IPA budget must be above a certain minimum level necessary to ensure the efficient operation of the benefits associated with promotional activities. As shown by the studies, the effectiveness of IPA is affected by the size of their budgets, which varies considerably from country to country. According to one of them, which we have already referred to, the impact of promotional activities of the IPA with a budget of less than \$ 64,000 on attracting FDI is zero (or even negative). With a budget between \$ 64,000 and \$ 2 million, IPA are efficient. The efficiency of IPA with budgets over \$ 11 million is decreasing. While these data should be interpreted with caution, as mere mathematical average, they suggest that small agencies are not efficient enough in attracting FDI. The existence of a minimum threshold of the IPA budget for it to be useful reflects the existence of fixed costs associated with a number of activities, such as promotion and image building. The thesis that agencies with small budgets are unable to attract the attention of many of the investors is further developed and studied. When an IPA spends less than \$ 64,000, it is unlikely that it can afford more than pay a few employees and conduct small and discrete activities. At the same time, the average budget for FDI promotion is about \$ 2.6 million per year and a typical budget does not exceed \$ 650,000. For developing countries these figures are approx. \$ 1 million and \$ 430,500 respectively. The number of IPA employees differs greatly depending on the income level of the country. Thus, an IPA in a typical developing country has approx. 10 permanent employees, while some of them have several dozens of employees. In contrast, the average number of IPA employees in developed countries is 30. The conclusion is that, in order to be effective, an IPA requires a minimum level of financial commitment from the host country. For most of the IPA, the bulk of this financial commitment (approx. 75%) comes from the government.

▪ The efficiency of an IPA is heavily dependent on the quality of the country's business environment. This, too, is directly dependent on the quality of the investment climate and the level of country's development. The data of empirical studies conducted in this context suggests that investment promotion efforts are more effective in countries with favorable business climates. The same data suggests that countries with higher rates of GDP growth tend to attract more FDI, the same applying to countries with a better regulatory framework, effective control of corruption and

high responsibility of the government, while the high political risks reduce the magnitude of FDI inflows. Investments are sensitive to the investment climate, as TNCs can generally choose between several locations for investment, while the investments are attracted by large markets more easily. Direct dependence between the quality of the investment climate, measured based on the Heritage Foundation indicator, the country's development and the performance or the efficiency of IPA has been demonstrated empirically. This is also shown by Figure 2 and 3. The results suggest that investment promotion should be seen as a complementary measure to create an attractive investment climate, rather than as a substitute for it. Special promotion without a favorable investment climate may even be counterproductive. The argument behind these findings is that improving the investment climate will not only contribute directly to attracting greater FDI inflows; this will also enhance the impact of promotion, which will consequently result in greater additional investments. Through its activities, the IPA can contribute to government's efforts to improve the investment climate. We will show that one of the most important functions of an IPA is to support reform efforts aimed at private sector development - the so-called advocacy to improve policies. IPA can perform this function due to their institutional positioning as intermediaries between the private and the public sectors, and contacts with both investors and with policymakers.

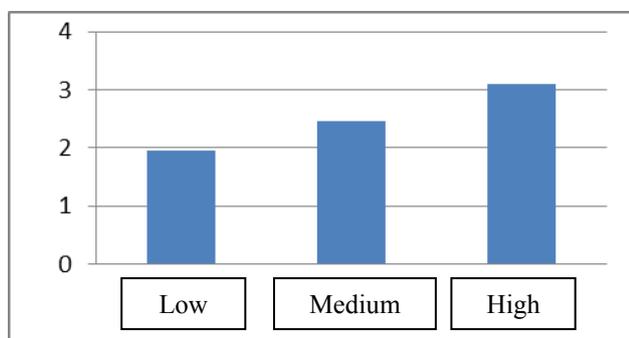


Figure 2 - % FDI increase (vertical axis) depending quality of the investment climate (horizontal axis)

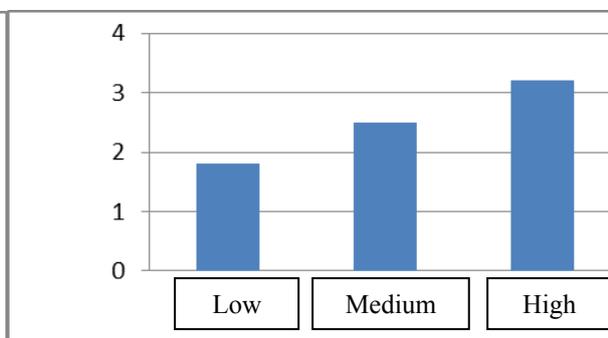


Figure 3 - % FDI increase (vertical axis) depending on the income per capita (horizontal axis)

Source: Jacques Morisset and Kelly Andrews-Johnson „The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment“, FIAS, the World Bank, 2004, p. 26

▪ The public policy advocacy function is considered to be the most efficient function of an IPA, associated with generating the highest inflow of FDI, followed by image building and investor facilitation/servicing (we will talk later about IPA functions efficiency). Investment generation activities, according to empirical studies, seem to have the least impact on FDI flows, although they absorb much of the budgets of IPA. The IPA in developing countries allocate most of their budgets for image building activities (38%), followed by generation of investments (29%), services for investors (25%) and policy advocacy (8%). The conclusion that policy advocacy activities are the most effective function of the IPA is consistent with the previous conclusion, i.e. that the efficiency of IPA directly depends on the quality of the country's investment climate. Such activities help improve the investment climate - which in turn helps boost the efficiency of IPA promotion. Most IPA, as already mentioned, can perform this function due to the strategic position they have - the interface between the public and private sectors. Advocacy activities are led by senior management in most IPA, as these are the most suitable person for such activities. In other countries, such activities involve members of the Board of Directors or Management of IPA. In contrast, the lower impact of investment generating function can be explained by the high cost of these activities (especially for traveling abroad) and the high level of expertise required to successfully implement targeted programs to attract investors. The IPA need qualified experts specializing in specific sectors and types of businesses, more time and attention paid to convince investors to invest in certain locations in their countries, this requiring significant resources. Expenses for such promotional activities have the lowest rate of recovery, especially in countries with unattractive

investment climate. However, both developing countries, and especially the industrialized ones, put great emphasis on proactive measures to attract investors (direct contact with investors). This could be explained by the fact that industrialized countries allocate larger budgets for promotion and advocacy function is not as relevant for them, as they already have an attractive investment climate. It is more important through that the agency changes its focus in the activity depending on the progress of the country. The IPA put more emphasis on generating investments and move on to more personal techniques to approach investors, once it is deemed that a good image of the country has already been created. Change of emphasis between different functions with the evolution of the country and of the IPA is considered to be the best strategy they should adopt. Thus, if the country already has a good image among investors, it does not have to spend resources for activities to build the image. On the contrary, if a country has a bad reputation because of cumbersome bureaucratic procedures, for example, it must attract more attention to the function related to services for investors before engaging in major activities to create the image, otherwise image building efforts will not generate the expected results because there is no "product" that is "sold" to investors as attractive investment climate and other major competitive advantages. This approach of promotion activities also dictates the need to establish a presence abroad, in order for the agency to be physically closer to potential investors. The size and scope of this presence depends on the size of the country and its level of development. Small countries in transition or developing countries may establish just a few, or even one office abroad. Research in this respect suggests that investment generating activities are more successful when they involve direct approach to specific companies and when those involved in such activities are good professionals in marketing and promotional activities, employed on a permanent basis. Contrary to these recommendations, many IPAs, including those from our country, count in such activities abroad on diplomatic corps employees who have sufficient knowledge and experience in marketing.

Table 1. Average number of investors contacted by an IPA each year

Type of the country	Total pro-active contacts	Incl. in person	By phone	By mail or telemarketing	Special missions
All countries	1872	382	374	959	12
Developing countries	1395	309	256	667	11
Industrialized countries	3955	750	904	2289	17

Source: Jacques Morisset and Kelly Andrews-Johnson „The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment“, FIAS, the World Bank, 2004, p. 43

Next function on IPA efficiency scale refers to country image building activities, which absorb most funds from IPA budgets of developing countries. The less developed (and smaller) the country, the more important it is to start the promotional efforts by addressing some particular sectors, industries or companies, in contrast to industrialized countries, focusing mainly on more general promotion activities. This is because less developed countries (and small) will be "taken seriously" only by certain groups of potential investors interested in specific niche investment. Accordingly, it is not reasonable for them to engage in general image building programs. In addition, the IPA should have clear programs to measure the effectiveness of their efforts to build the image, to determine when they can proceed to other steps and focus on activities that can bring greater benefits at the specific stage of country's development. Among image building activities the specialized literature highlights promotional materials development and public relations as the most effective ones, while advertising expenditures are considered to have the least impact on the inflow of FDI. The conclusion of such studies is that the IPA should not engage in aggressive and expensive advertising campaigns, but rather focus on developing and distributing promotional materials, as well as public relations activities, especially if the agency seeks to establish initial relationships. As a result, the ability to establish links (networking) is considered an essential quality of an effective IPA.

However, activities related to provision of services to investors are the core of many investment promotion efforts. In terms of budget allocation, this function is assigned major

importance. It is considered to be rather effective because it motivates investors who have already made investments to reinvest profits in the same country. According to estimates, over 50% of global FDI come from reinvestment. The existing studies in the field of investment promotion report that IPA in most developing countries focus on the following activities: 63% of them run programs aimed at targeted attracting of investors from specific countries; 55% follow specific companies or sectors; about 50% focus on expansion of investors already present in the country; 45% promote joint ventures with participation of local companies.

Table 2. FDI inflow elasticity upon variation of IPA expenditure by functions

Function	Elasticity ratio
Policy advocacy	0,30
Image building	0,25
Services for investments, facilitation	0,24
Investment generation	0,18

Source: Jacques Morisset and Kelly Andrews-Johnson „The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment“, FIAS, the World Bank, 2004, p. 35

▪ Reporting mechanisms at the highest political level, as well as private sector participation help increase the visibility and credibility of the IPA, and these, in turn, raise the efficiency in attracting FDI. The evidence presented in case studies suggests that quasi-governmental agencies with autonomous status are more effective in promoting FDI than as units within ministries (Wells and Wint, 2000). Similarly, agencies reporting to external entities are more efficient than those that are accountable to their boards. This thesis is supported by several authors. In his empirical study, Jacques Morisset claims that, first, FDI flows are significantly lower in countries where IPA are part of ministries, in contrast to countries where IPA are autonomous bodies or public-private institutions. Secondly, the efficiency is higher when the IPA report to a supervisory body that includes representatives of the private sector – the more representatives of the private sector, the higher the efficiency of IPA. Finally, the efficiency if IPA is higher when they report directly to the President or Prime Minister of the country. Private sector participation allows the IPA to build relationships with private companies, which can help them identify the real problems faced by foreign investors in the country. Without the participation of the private sector, IPA can address these issues only from a distance, since they cannot describe problems in terms specific enough for government authorities to take steps to solve them. With the participation of government, however, IPA can solve the obstacles identified by the private sector. Similarly, government participation offers the LPA the potential of easier access to the parliament, ministries and state agencies capable of removing the barriers faced by investors. These findings confirm that the most efficient IPA benefit from higher visibility and from private sector participation through their boards or institutional relations. Such links strengthen the government's commitment and raise the agency's credibility in the eyes of the business community. The study conducted by Jacques Morisset and Kelly Andrews-Johnson concludes that:

- FDI flows are significantly lower in countries where IPAs are part of a ministry, in contrast to countries where they are autonomous bodies or public-private institutions.
- IPA efficiency is higher when they report to a supervisory board that includes representatives of the private sector. The higher their number, the higher the efficiency of the IPA.
- When the Agency reports to the country's President or Prime Minister, its activity is associated with a greater inflow of FDI.

III. ANALYSIS AND NEED TO REFORM EXISTING INVESTMENT PROMOTION ORGANIZATIONS IN MOLDOVA

The need to actively promote investment opportunities in Moldova is clear from both the importance of this activity, performed by all countries that engaged in the fierce competition for FDI, and from the absence of such organizations in our country, which would meet international

standards on applied skills and practices. Although at the national level there are 2 organizations in the RM performing the tasks of an IPA, none of them complies with international requirements and practices. The table below shows a brief analysis of the strengths and weaknesses of these institutions, to be followed by proposals on the optimal functions/structure of such organization, based on those identified, and the review of the best practices and experiences worldwide.

Table 3. Strengths and weaknesses of organizations active in FDI investments in Moldova

Institutions responsible for FDI investments in RM	STRENGTHS	WEAKNESSES
MIEPO	<ul style="list-style-type: none"> - As a subdivision of the Ministry of Economy (ME), it can benefit from its support and the ability to use ME resources (knowledge, information, authority, links, etc.); - At the beginning, received support as transfer of knowledge and skills from the European structures; - Has been operating for more than 13 years and is known throughout most of these years as the only agency promoting FDI in Moldova. 	<ul style="list-style-type: none"> - No independent or autonomous status, a unit subordinated to ME. As we have seen from the analysis of international experience, this type of organization is less effective than with autonomous structures; - Attracting FDI is not the only priority; the agency has to disperse the limited resources and capacity to export promotion as well; - Limited capacity (small number of employees and small budget); - More engaged in activities to create the image of the country; other functions are absent; - Not quite proactive in attracting FDI (negligible impact in attracting FDI so far); - Not present at regional level; - Poor connection with the private sector; - Small budget.
Foreign Investment Attracting Team of the State Chancellery (IAT)	<ul style="list-style-type: none"> - Directly subordinated to the Prime Minister, which facilitates settlement of problems and provides a high degree of confidence to foreign investors. According to international practice, it is the best form of organization of an IPA; - A young team with a pro-active attitude in attracting FDI (focused primarily on direct marketing / investment generation function); - Takes advantage of direct links and contacts with potential investors, established in missions and Prime Minister's delegations abroad, or foreign missions/delegations in Moldova. - Takes advantage of support and funding from international organizations. 	<ul style="list-style-type: none"> - It was designed and is perceived as an organization based on rather political criteria, and as such is at risk of losing the support of state authorities if the political circumstances change; - It is a new structure, little known by potential investors and business representatives; - Similarly to MIEPO, it is not present at the regional level; - While trying to cover all 4 major functions of an IPA, because of its limited capacity, it is more present in only in one of them (investment generation); - Limited experience in attracting FDI, similarly to MIEPO, we cannot talk about any noticeable impact at the level of the overall economy; - Poor connection with the private sector; - Relatively small number of employees (5-6 people)

Source: developed by the author

The best practices in investment promotion and in the activity of a national IPA are based on successful experiences, i.e. those strategies, structures and operational practices that have generated measurable results. The conclusions outlined above, based on these experiences, build only a framework for approaches to these activities, while there is no universal successful model in the world practice. Such models should be constructed in each country, taking into account the international successful experience and peculiarities of business, culture, needs and priorities of each country. The figure below shows a model of such IPA suggested by us for Moldova (APIM):

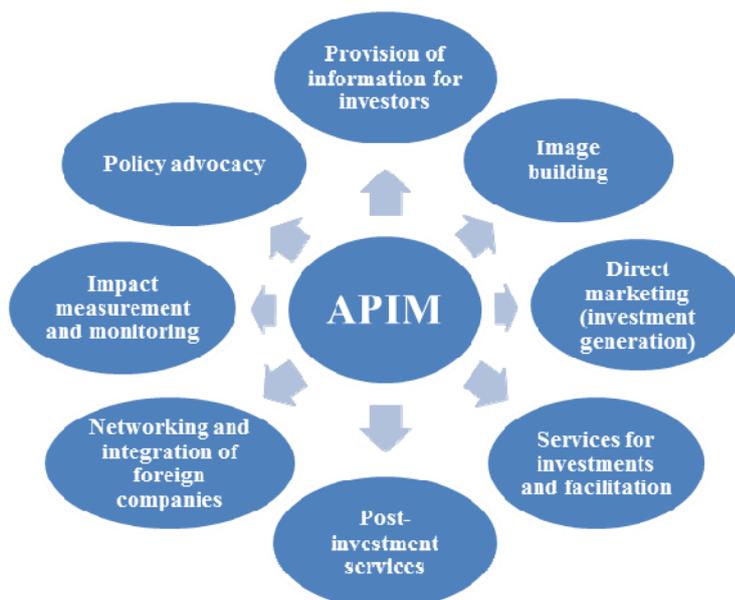


Figure 4 - Strategic functions of APIM

Source: developed by the author

The strategic goal of APIM - based on international best practices - should be the contribution to increased FDI inflows, through the efficient execution of the functions. Deciphering the specific objectives, activities and roles for each function is critical to the success of this agency. This is, however, a continuous and permanent development process- the above scheme is only a strategic framework and a general process. Foreign investors prefer to invest in Moldova in Chisinau and Balti only. In addition to objective reasons (more developed infrastructure, massive presence of labor), this may be the result of lack of information on investment opportunities to invest in other regions of the country and insufficient communication of these opportunities and investment attractiveness to potential investors. To address this issue, APIM should build an active regional presence in at least three regions of the country, corresponding to the three currently functional development regions: North, Center and South, in line with international practice. Thus, in larger countries, there are regional structures for attracting investments, using the entire range of functions and practices of FDI attracting specific for an IPA (e.g. Port Authority of New York, California IPA). These structures, however, are less relevant for Moldova. In smaller countries, such as Ireland or Croatia, the typical strategy and structure of an IPA consist of a national agency that promotes FDI attracting at international level and regional offices or branches that serve and facilitate new or already existing investments and provide a wide range of post-investment services once an investment project has already been completed and is operational. The overall objective of the regional responsibilities and activities of APIM territorial structures in line with international practice, could be as follows:

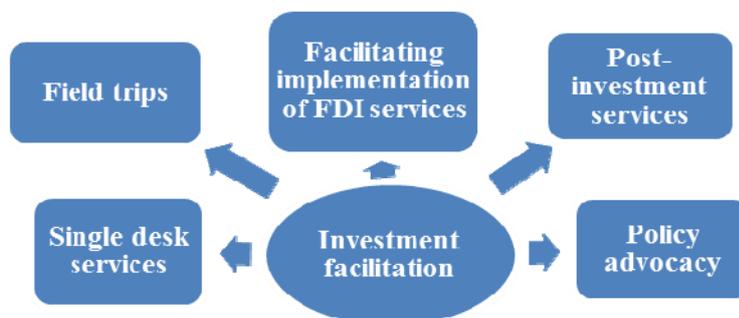


Figure 5 - Investment facilitating activities of APIM’s regional structures

Source: developed by the author

A World Bank study highlighted the importance of facilitating investment in the general framework for attracting FDI as follows: "Unless the IPA has developed a program to facilitate investment in a professional manner, it cannot engage in other activities to promote investments "... Facilitating investment is by far the least expensive and the most effective of all investment promotion activities "...IPA allowing bureaucratic and procedural issues to prevent providing services to investors can negatively influence their country's image as a destination for investments". This basic reality is not fully understood by many IPAs in the world, including by the two organizations responsible for attracting FDI in Moldova, which do not fulfill this function, either for lack of capacity, or because of insufficient understanding of the problem. Similarly, local public authorities or other institutions, according to the Law on investments in entrepreneurial activity, or the Strategy for attracting investments and other laws and regulations have no responsibilities in facilitating investment attraction. This, however, should not be underestimated, because, as mentioned earlier, 50% of new global expansion projects come from existing investments, such as attracting affiliates to fulfill such functions as research- development or marketing, attracting suppliers or service providers (construction, logistics, technical support, software systems, etc.). The functions presented in the figure above should not prevent the APIM regional offices to establish direct contacts with potential new investors. But, as revealed in the analysis of global practices of IPA, investment generating activities (direct marketing) are time and money consuming and require high skills and experience (sector specific knowledge, skills and techniques to address investors, knowledge in sales and provision of services, regular visits abroad for meetings with investors). In smaller countries, such activities are usually performed by national IPA.

IV. CONCLUSIONS

We believe that the best option for Moldova would be the merger of the 2 existing organizations, thus combining their limited capacity and experience (the capacity of MIEPO, mainly in image building, and the one of IAT - in direct marketing) in a stronger organization, capable to more effectively fulfill these functions, as well as the functions related to service / facilitation for investors (currently beyond the scope of activities of the two organizations) and policy advocacy (currently fulfilled by only one ordinary employee of the IAT, in contrast to international practice, which recommends that this function should be performed by the top management of IPA, or even members of the Board of Directors). Other recommendations on the status, structure and functions of APIM refer to:

- Its autonomous status, managed by a Board of Directors composed of representatives of state authorities and the private sector, reporting to the Prime Minister or the President, in order to effectively liaise APIM with both the private and the public sector;
- Development of a single message attractive to foreign investors (or the country's single offer) – for Moldova. This may imply promoting the country's image as a place with skilled labor at relatively low cost (while increasing the efforts of professional training of personnel);
- Targeted promotional efforts of APIM - they must primarily target companies in sectors with high added value and export oriented companies. Given the analysis of sectors with the highest clustering potential, these sectors could be: production of electric machines and devices; food and beverages; clothing and footwear, leather processing; textiles; production of other non-metallic mineral products; manufacture of furniture;
- Allocation of a sufficient budget for the effective fulfillment of the 4 basic functions of an IPA. The merger of the 2 currently existing investment promotion organizations would yield a significant gain in merging their budgets: much of the required work currently cannot be effectively accomplished by any of the two organizations because of budget constraints, among other reasons. As the international practice shows, the optimal minimum budgets of such organizations are between 430 and 650 thousand US dollars. In case of their merger, the budget would increase, which would remove some of these constraints. The same refers to the

number of employees: mainly because of budget constraints, the number of staff of each of these organizations is too small for an efficient activity. The merger would result in an increase in the number of employees, allowing a more efficient fulfillment of each of APIM's functions;

- Concentration of APIM efforts and resources mainly on policy advocacy function and investor serving/facilitation - the least addressed functions by the 2 organizations specializing in investment promotion. The rationale for this is that, as the international rankings show, Moldova is perceived as a country with an insufficiently attractive business and investment climate. The positive change in investor perceptions about the quality of the investment climate would shift the focus towards creating the image of the country and direct marketing activities (generating investments);
- Opening at least one APIM representation abroad, in one of the European business centers (the likelihood of investments in Moldova is the highest among investors from the EU, as shown by the FDI practice in Moldova), with employees having experience in marketing and networking, in order to promote the country as a suitable place for investment, and at least 3 domestic regional offices, corresponding to the three development regions - North, Center and South;
- Implementing a performance measurement system for APIM: the agency must have measurable objectives and a regular system for performance monitoring and evaluation of these performances, in order to ensure a correct understanding of the results and failures, to be able to take corrective action and identify exactly the moment when APIM can shift the priority focus to different functions / activities.

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