



Site Visits by Potential Outside Investors

Guidelines

Prepared for the
Foreign Economic Relation Department of the
Tomsk Oblast Administration

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I. The Inward Investment Decision Making Process

Outside investors (foreign direct investors and Russian investors from outside the region) are continuously looking for new locations for potential investments.

Direct investments are contrasted to “portfolio” investments by the degree of management influence in the investment. While portfolio investments are often “passive” investments in shares of a company, purely for the purpose of receiving dividends and capital gains, a direct investment involves significant management influence in the company. In many developing and transition economies, in fact, investors want to have full control over a company, which usually requires a majority share in the ownership.

Foreign direct investors (and to a lesser extent, Russian investors based outside the region), who are usually in control (managers) of already-existing companies, are heavily influenced by market forces and the imperative to yield high profitability to their shareholders. This in turn requires companies always to seek out new business opportunities and ways to increase their competitive edge. This includes new markets, new sources of inputs, and new places to make direct investments.

Their decisions about where to cite a new direct investment are usually governed primarily by where they believe they can enhance their profitability, either by increasing revenues (e.g., by accessing a new market) or decreasing costs (e.g., by accessing new sources of inputs) or both, and also decrease their risks.

Generally speaking, potential direct investors are NOT shopping for a project or business to put their money into. They have their own needs, their own strategy, and they want to maintain a high degree of control over their investments.

○ **Investors evaluate the attractiveness of several different locations.**

Therefore, investors are usually looking for investment sites that are either close to a good market (where they can sell their goods and services for an attractive price), close to important inputs (including raw materials, intermediate inputs, skilled labor, etc.) or both. They also want a location that will minimize their transaction-costs and risks.

Transaction costs can include transport costs, the cost of delays (including the opportunity cost of time wasted in unnecessary delays), as well as administrative costs and fees.

Investors are also usually sensitive to risks, which can include risks of physical losses (e.g., due to earthquakes or wars), theft, work disruptions (e.g., due to labor strikes), sovereign risk (e.g., expropriation of assets or exchange rate losses), or the risk of negative bureaucratic decisions (e.g., if bureaucrats favor cronies who may be competitors of the investor).

Thus investors are looking not only for markets and inputs, but also stability, predictability, and rule of law.

- **There is sometimes a trade-off between locations that affect investment decisions based on market and production factors considerations.**

Of course, investors know they can't always have everything in one investment location. Japan and Western Europe are excellent markets, and companies often want to be located there in order to have easy access to those markets. There is also good stability and rule-of-law. However, they are often lacking in raw materials or low labor costs.

Many African countries, in contrast, are very rich in raw materials (e.g., Nigeria, Angola, and Sierra Leone) and have low labor costs, and may therefore attract investment in the extractive sectors (e.g., oil or diamonds) or labor intensive industries. However, many such countries are plagued by instability and do not have attractive local or regional markets, because the people are so poor.

Some transition and developing countries have neither attractive markets nor raw materials (e.g., Estonia or Singapore), but they have established a reputation for stability, relatively low cost skilled labor and for low transaction costs and minimal risks. They have therefore attracted many export-oriented investors for both manufacturing and services.

It is interesting to notice that skilled, low-cost labor can be attractive, but only in the context of other positive features. For example, almost all transition countries can offer highly-skilled, low-cost labor. However, one can easily contrast the success of the Baltic countries with the relative failure of nearby Belarus and Ukraine to see what a difference "rule of law" makes in their ability to attract FDI.

Thus a country or region that wants to attract investors needs to consider what natural attractions it can offer (a large, wealthy market and/or resources or labor skills), and to do everything possible to ensure that all other features (stability, rule of law, low transaction costs) are the best possible.

- **Investors start the process with a "long listing" of locations (5-9), move to "short listing" (2-3) and finally to the selection of the final location.**

If a company wants to make a new investment, they might expand production in an existing location, or look for a new investment site, based on their strategy to maximize profits. For example, if they believe their best strategy is to find cheaper skilled labor for software development, they may consider locations as wide-spread as Russia, India, Philippines, Chile, or South Africa.

Often, they will base this list on locations that are known to them either through broad business contacts and/or through the normal media (television, newspapers). Some large corporations will do more extensive research to find locations that have certain features they want (e.g., low-cost programmers).

Once they have a long-list, they will usually start to delete location sites based on known problems (e.g., high transaction costs, sovereign risk, etc.). They will often make targeted inquiries about some of the sites (e.g., they will try to find out how many days have been lost to strikes, the frequency of electricity failures, etc.). Sometimes (but not always) they will visit some sites before finalizing their “short-list”. They will usually want to consider at least 2 – 3 potential investment sites, which will be the best “package” from the point of view of their corporate strategy.

- **Site visits are an important part of the decision making process.**

The company will usually want to visit each of the sites on their “short list” before making a decision. They want to see for themselves what are business conditions, and also living conditions. They will want to speak face-to-face with their potential local business partners (if any), suppliers, customers, and government officials, as well as local lawyers, accountants, and possibly other local consultants. Management of the firms would like to be sure that the staff conducting the investigation get first hand information on the site. They trust their own staff to perform a professional study of the conditions on the spot. In addition, various aspects of the study are of intangible nature. Impression on issues such as trustworthiness, sincerity, sense of security, responsiveness, etc. are an important part of the site evaluation.

II. Information and Site Selection Criteria

Basic information that investors want to know about a potential investment site include the list below. It is ideal to keep such information available and up-to-date on a web-site (preferably in English as well as Russian), with hard copies readily available on request.

- **General issues** such as:
 - **access to markets** (population size and GDP/capita for municipality, region, Russia, former Soviet Union, Central Asia, other),
 - **business climate** (stability and likelihood of growth – GDP growth trends, productivity trends),
 - **market regulation** (Administrative Barriers to Investment),
 - **fiscal regime** (all relevant business taxes and incentives),
 - **communication and transportation infrastructure**,
 - **general labor regime**.
- **Specific issues** such as:
 - **labor** (skills, costs and availability),
 - **production materials** (quality, costs and availability),
 - **utilities** (electricity, fuel, water, sewage, telecommunications – quality, costs and availability),
 - **transportation** (roads, airport, trucking etc. – quality and costs),
 - **financial services** (accounts, credit, international transactions – quality and costs),
 - **sites/property** (availability and cost),
 - **existing investors** (satisfaction, recommendations),
 - **the quality of life for people coming out of the region** (accommodation, transportation, education for children, healthcare provisions, etc.)
- **Evaluation of the response and quality of services** provided by the local investment promotion agency i.e., the Foreign Economic Relation Department.

- **Factors Affecting Foreign Investment Flows** ¹
(10 – very important, 1 – not important):

q	Political stability	8
q	Dividend/capital repatriation	8
q	Foreign Investment Laws (regulations)	7
q	Market size	7
q	Economic stability	7
q	Infrastructure	7
q	Market growth	6
q	Labor skills	6
q	Quality of life	6
q	Wages	5
q	Suppliers	5
q	Intellectual property rights	4
q	Incentives	4

1. Based on 1997, Lecraw, study on general FDI, updated by FIAS.

III. How to provide good service to potential Outside Investors

An investment agency or office should always be ready to respond to inquiries from potential investors, including basic information as listed above. In addition, the investment office should welcome visitors. To be ready for such visits, the investment office needs to keep in mind the following:

- **What the investor really needs and looking for is:**
 - **Professionalism and Project Handling:** Acting in a business-like manner. Understanding and anticipating the priorities of the investor. Continuity in handling the project (i.e., preferably at least one person from the Investment Office works with a particular investor from beginning to end).
 - **Responding with Speed:** An immediate acknowledgement of an inquiry, followed by a well-researched response creates confidence. (e.g., if an investor inquires about the average wage rate of programmers, and rates charged by internet service providers in the region, immediately send him a note confirming you received the request, and an estimate of how long it will take you to compile the information and send it to him).
 - **Level of Details and Honesty:** The provision of detailed, specific and realistic information, including details on the negative aspects of the environment (the investor will find them anyway, and being frank improves your credibility).
 - **Enthusiasm and Ambition:** An enthusiastic and ambitious team that supports the investor.
 - **Understanding and Commitment:** Understanding the needs of the investor and a long-term commitment to help him implement the project.
 - **Language skills:** Most foreign investors expect to be able to communicate in English with the Investment Agency. Other languages are also helpful.

- **How to prepare a visit?**
 - Assign a specific Project Officer to handle all details of the “Site Visit”.
 - Send a fax/Email to the investor asking him:
 - What information is he expecting to get during his visit?
 - Who is he expecting to meet?
 - What would he like to see?
 - How long would he like to stay?
 - How much time-off (free time) he wants to have?
 - Does he need any assistance in travel arrangements including hotels, local travel and immigration procedures?
 - Does he need an interpreter?
 - Send any available written information on the above list of general and specific information needed by investors.
 - Prepare a “Site Visit” program based on the investor’s requests and your knowledge of the local condition.
 - Set a coordination meeting in your office in which the important participants in the “Site Visit” are present.
 - Send the coordinated “Site Visit” program to the investor.

○ Do's and Don'ts in "Site Visits"

● Do's

- **Identify customer needs and make an interesting/impressive program**
- **Prepare as far in advance as possible a well planned and balanced program**
- **Gather and record all information needed beforehand, including all relevant details for each meeting:**
 - **Who will be at the meeting?**
 - **Where will it take place?**
 - **How will the visitor get there?**
 - **When will it start and end?**
 - **What is the topic of discussion?**
- **Set up the responsibility and coordinate the Site Visit**
- **Be sensitive to the seniority of the investor, e.g.:**
 - **A very important, large, strategic investor should receive every possible courtesy ("red-carpet treatment")**
 - **A relatively small investor does not expect "red-carpet treatment" but should be provided with full and prompt assistance regarding information and meetings**
- **Be ready to adjust the program and have contingency plans**
- **Be aware of time constraints and keep travel times to a minimum**
- **Take notes of all promises made to the investors and follow-up**
- **Build in relaxing/leisure time on long visits**
- **Set the hospitality level to the seniority of the investor**
- **Win the heart of the investor**

● Don'ts

- **Overcrowd the program**
- **Set up appointments for information not requested by the investor or out of his agenda (e.g., for pet projects of local VIPs)**
- **Leave visitor unattended or place investor in uncomfortable or awkward situations (e.g., a place where crime is a problem)**
- **Lose control of the visit program, e.g.**
 - **If a relatively unimportant meeting is running too long, help to bring it politely to an end;**
 - **If an important meeting is running too long, call to reschedule the subsequent meetings;**
- **Risk delays in the schedule due to rush hours, strikes etc.**
- **Speak badly about other locations**
- **Forget to thank the investor for coming!**

○ Some Typical Concern and Complaints of Investors Connected with Site Visits

- **Why do I have to wait so long for an answer?**
- **Who is actually in charge here?**
- **Who makes decisions around here?**
- **Why won't they show me what I want to see?**
- **Why can't they understand what I need?**
- **Why do I meet so many people who have nothing to contribute?**
- **Why do people not show up at meetings?**
- **Why do people show up so late at meetings?**
- **Why do they invite me to so many meals?**

○ Follow-up on Site Visits

- **Send information on the site visit to your foreign representatives (Russian Embassy in the potential investor's home country) and ask for follow-up**
- **Meet all promises made by you and your colleagues**
- **Follow-up on all promises made by other parties and quickly send them to the investor.**
- **Keep in touch with the investor (fax, Email) and initiate soft requests for feedback**
- **Identify strong investment prospects and initiate visits to discuss the investment.**
- **Continue to send new information that will be of interest to the investor**
- **Send holiday greetings**