German Economic Team
UKRAINE

Financing models of Investment Promotion Agencies (IPAs) – Review of international experience

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Executive Summary

While Investment Promotion Agencies (IPAs) use a broad range of financing models, the most common and important budget source consists of public sector budgetary allocations – in particular in the area of investment attraction

- The budget size of IPAs varies considerably depending upon the countries‘ levels of GDP per capita and the agencies‘ scope of mandates
- In light of restrained public budgets, IPAs have intensified their efforts to tap additional revenue potentials
- However, as confirmed by recent surveys carried out by OECD, WAIPA and the World Bank Group, IPAs and in particular their investment attraction tasks are still largely funded from public budgets
- Substantial volumes of additional revenues can be primarily generated in areas outside the scope of investment attraction, e.g.:
  - Real estate (e.g. development and management of industrial parks)
  - Export promotion (e.g. trade fair services)
  - Cluster development (e.g. membership fees from cluster initiatives and contributions / project funding from international organisations and programmes)

Executive Summary

Empirical research and practical experience indicate a rather limited revenue potential in the area of investment attraction – in terms of volume and scope of funding sources

- A number of IPAs uses contributions from international organisations / programmes and companies that already have a presence in the country – to supplement their investment attraction budgets
- However, fee-based models are not feasible. In light of the intense competition between locations, IPAs cannot charge fees from potential investors for core investment promotion and facilitation services
- International experience shows that funding sources should not be addressed in isolation. In particular the following aspects should be considered when designing an IPA‘s financing model:
  - Legal status and mandates of the IPA
  - Needs and resources of potential clients
  - Capacities of the IPA
  - Alignment of funding sources with the IPA’s core tasks and strategic focus

Outline

1. Introduction
2. Budget size and structure of Investment Promotion Agencies
3. Good practice examples of revenue generating activities
    - Investment attraction
    - Further mandates
4. Preconditions and success factors

1. Introduction

Taking into account available surveys and practical experience, this policy briefing examines options for Investment Promotion Agencies (IPAs) to diversify their funding structure as well as the corresponding preconditions

Background:

- In light of restrained public budgets, IPAs are intensifying their efforts to tap additional revenue potentials
- UkraineInvest is also seeking to diversify its budget sources

Purpose of this Policy Briefing:

- Drawing on available surveys of IPAs as well as a good practice analysis focusing on German agencies, the briefing aims at supporting this process
- A review of commonly used financing models of IPAs across the globe forms the starting point highlighting differences between regions, country income groups and types of agencies
- Concrete examples are used to illustrate revenue generating activities within investment attraction and further mandates
- On this basis, preconditions and success factors for the design of financing models are identified focusing on the legal and strategic framework, the necessary capacities and the customer potential

2. Budget size and structure of IPAs

An IPA‘s financial resources determine the quantity and aptitude of its staff, the scope of its activities and many further organisational and operational aspects

- Considering the long cycle of investment attraction, an adequate and sustained budget forms a key success factor for IPAs
- As it takes on average 2-3 years between the first contact to an investor and the location decision, continuity is of critical importance
- As confirmed by a recent OECD survey, inadequate resources and staff constitute the two greatest challenges for IPAs to fulfil their mandate in the mid to long-term

Challenges perceived by IPAs that can limit their ability to attract investment in the next 5-10 years

Ranking	Challenges
1.	Inadequate resources
2.	Inadequate staff
3.	Wider business climate or regulatory framework
4.	Inadequacy or instability of the mandate
5.	Lack of political support for the IPA
6.	Emergence of new players in the market

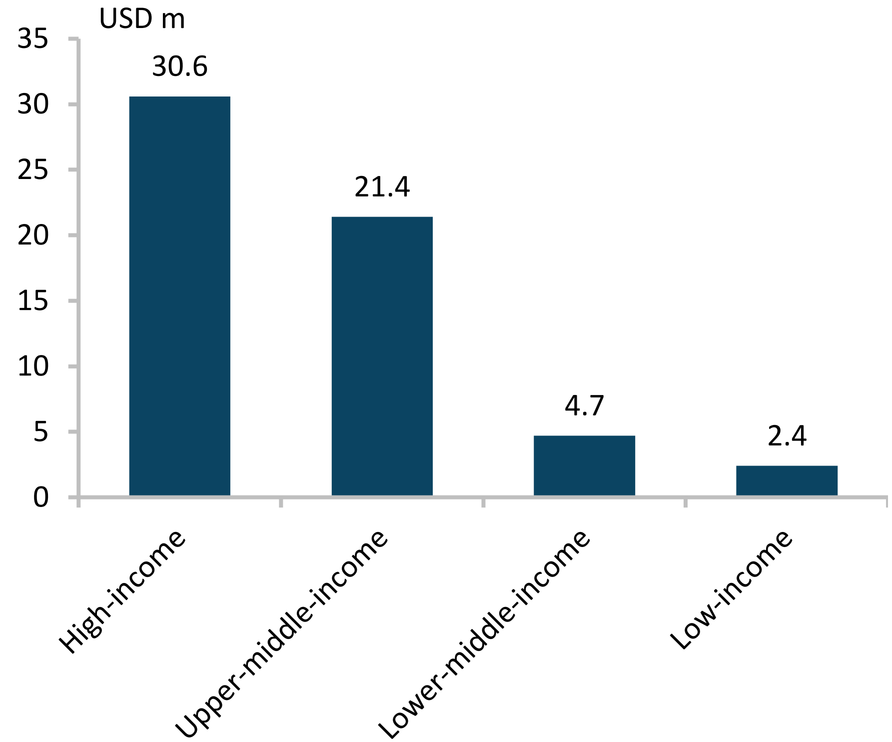
Source: OECD 2019

2. Budget size and structure of IPAs

The budget size of IPAs varies considerably depending upon the countries‘ levels of GDP per capita and the agencies‘ scope of mandates

- According to the latest global survey by WAIPA and the World Bank Group, IPAs from more developed countries have significantly more financial resources
- The average budget of IPAs in high-income countries amounts to USD 30 m, comparing with USD 2.4 m in low-income countries
- Last year’s OECD Mapping of IPAs in Eurasia comes to the conclusion that most agencies in the region operate with limited financial, human and organisational resources compared to their counterparts at the international level

IPAs’ total budget size by country income group



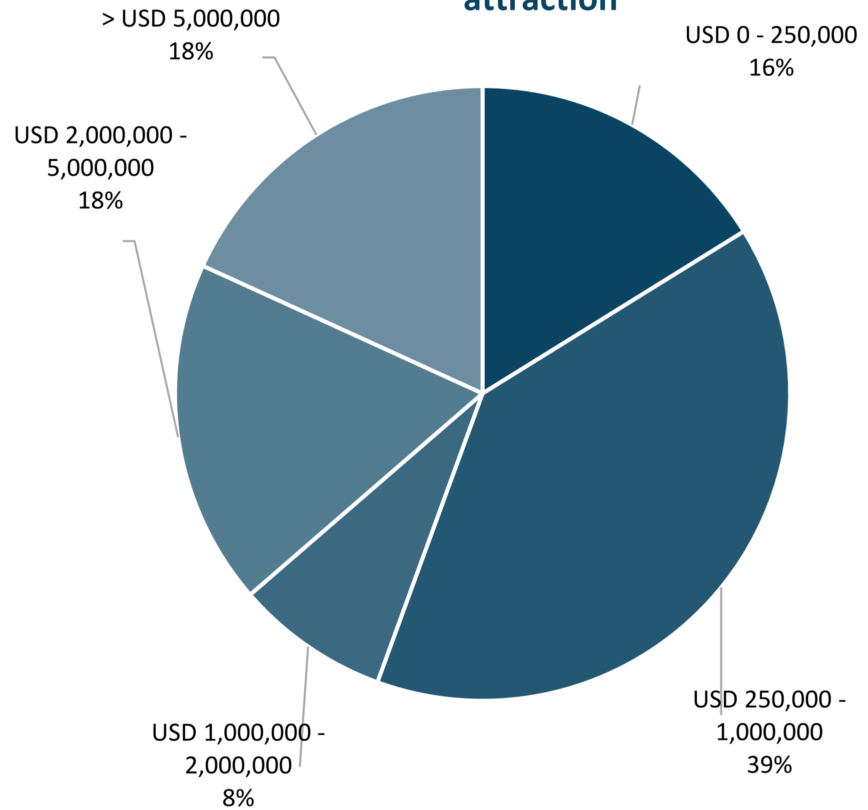
Source: World Association of Investment Promotion Agencies (WAIPA) / World Bank Group (WBG) 2020

2. Budget size and structure of IPAs

The budget size of IPAs varies considerably depending upon the countries' levels of GDP per capita and the agencies' scope of mandates (cont.)

- In addition to investment attraction, many IPAs have further mandates, e.g. trade promotion, supplier development or the management of special zones
- The difference between the total budget and the one dedicated to investment attraction can be quite substantial
- However, according to the mentioned WAIPA/WBG survey, large variations also exist in investment attraction budgets
  - 18% of IPAs operate on a dedicated budget of USD 5 m or more
  - On the other end of the spectrum, 16% of IPAs allocate less than USD 250,000 to this core task

IPAs' budgets dedicated only to investment attraction



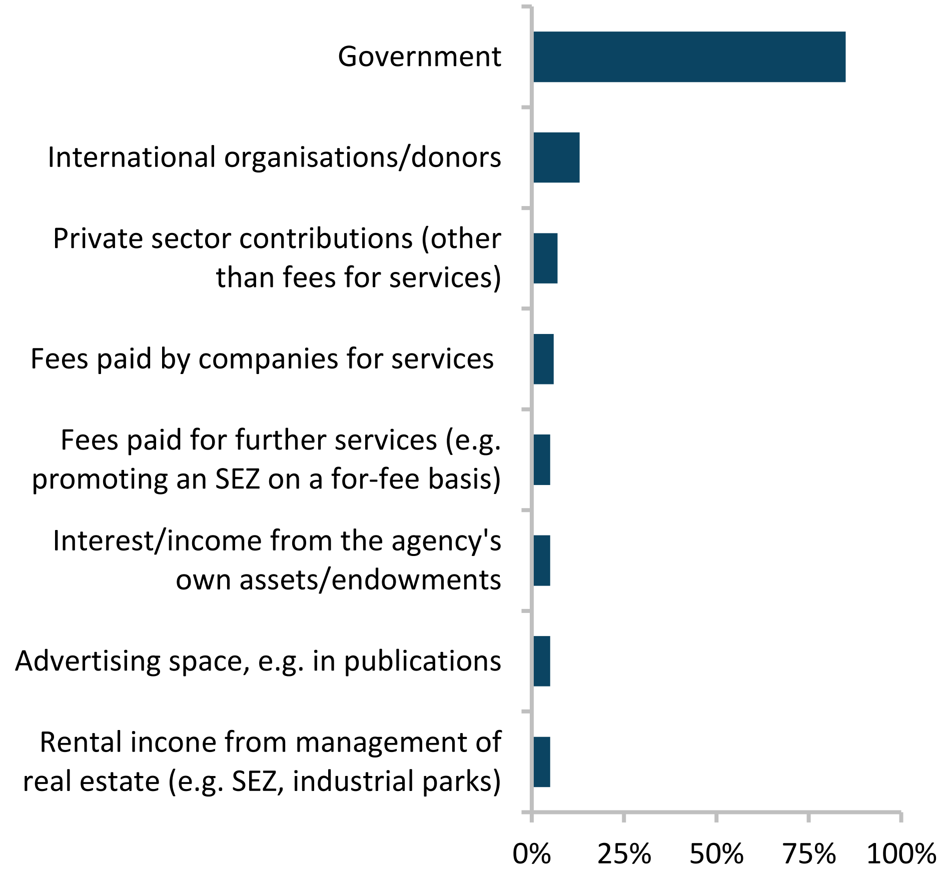
Source: World Association of Investment Promotion Agencies (WAIPA) / World Bank Group (WBG) 2020

2. Budget size and structure of IPAs

While IPAs use a broad range of financing models, the most common and important budget source consists of public sector budgetary allocations

- Most IPAs (85% in the mentioned WAIPA/WB survey) receive some form of government funding
- However, several IPAs have intensified their efforts to tap additional revenue sources, including:
  - Financial assistance from international organisations and programmes
  - Service fees paid by their clients (e.g. for trade missions)
  - Income from own assets and real estate
  - Further contributions from the private sector (e.g. sponsoring or PPP models)

Share of IPAs per budget source



Source: World Association of Investment Promotion Agencies (WAIPA) / World Bank Group (WBG) 2020

2. Budget size and structure of IPAs

While IPAs use a broad range of financing models, the most common and important budget source consists of public sector budgetary allocations (cont.)

- OECD mappings carried out in different regions also confirm that IPAs and in particular investment attraction tasks are largely funded from public budgets
- According to those mappings, public funding accounts for 97% of IPAs' budgets in Eurasia
- In Latin America and the Caribbean (LAC), this share is significantly lower (70%). The same applies to the Middle East and North Africa (MENA)
- In OECD countries, governments provide on average 90% of IPAs' budget sources. Close to two thirds of agencies are fully financed by public funding
- In part, this regional variation can be explained by differences in mandates:
  - In comparison, IPAs in the LAC and MENA region tend to have a broader set of mandates beyond investment attraction
  - At the same time, survey results indicate that IPAs are generating additional revenues (e.g. through fees for services) mainly outside the scope of their investment attraction activities

3. Good practice examples – investment attraction

Practical experience confirms a rather limited revenue potential in the area of investment attraction – in terms of volume and scope of funding sources

- In light of the intense competition, IPAs cannot charge fees from potential investors for core investment promotion and facilitation services
- As illustrated by the following examples, contributions from international donors can be used to supplement investment attraction budgets:
  - GIZ is implementing comprehensive cooperation projects, amongst others, in Moldova and Tunisia comprising also operational support for outreach campaigns
  - With the support from USAID, Enterprise Georgia has established a partnership with the advisory firm OCO Global to promote investment opportunities
  - Under the Action Plan for the Western Balkan Common Regional Market, the World Bank Group and EBRD are supporting a broad spectrum of investment promotion activities of IPAs in the region, including the development of value propositions, lead generation campaigns and investment conferences
- In addition, several IPAs use private sector contributions – from companies that already have a presence (e.g. tax or legal advisors) – for investment promotion events (sponsoring) and publications (selling advertising space)

3. Good practice examples – investment attraction

Berlin Partner – the IPA of the Federal State of Berlin (Germany) – constitutes a quite unique example of an IPA generating a substantial part of its investment attraction and total budget from the private sector based on a PPP model

- Berlin Partner raises approximately a third of its total budget from 230 companies (“Berlin Partners”), universities and research institutions
- Main tasks of the IPA with its about 200 employees comprise investment attraction, management of the city brand, trade promotion, cluster management, start-up and innovation support
- The state holds only an indirect minority interest – through the public IBB State Promotion Bank
- In addition to IBB, the shareholder structure comprises:
  – Private companies (through “Partner for Berlin Holding”)
  – Chambers and associations
  – Berlin Technology Foundation (foundation under civil law)

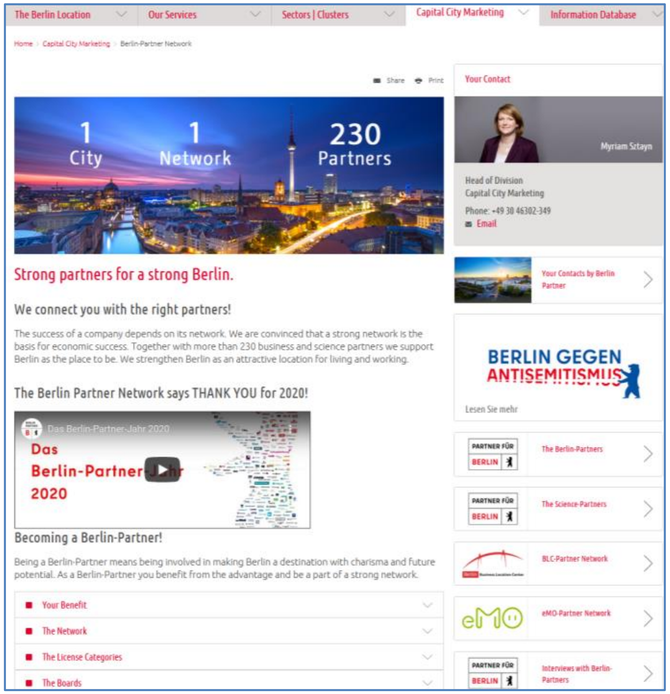
Berlin bear made up of the logos of all “Berlin Partners”

3. Good practice examples – investment attraction

The partner companies and institutions can benefit from a broad range of networking opportunities and services offered by a special unit of the IPA

- Companies, universities and research institutions can choose from different licence categories with fees ranging from EUR 2,000 to 80,000 p.a.
- Depending upon the licence category, different sets of benefits are offered, including:
  - Use of the Berlin Partner logo for corporate communications
  - Events, networking opportunities and access to decision makers
  - Integration in communication campaigns
  - Talent marketing and recruitment support
- A special unit of the IPA with seven event and key account managers is in charge of developing the partner network

Berlin Partner Network

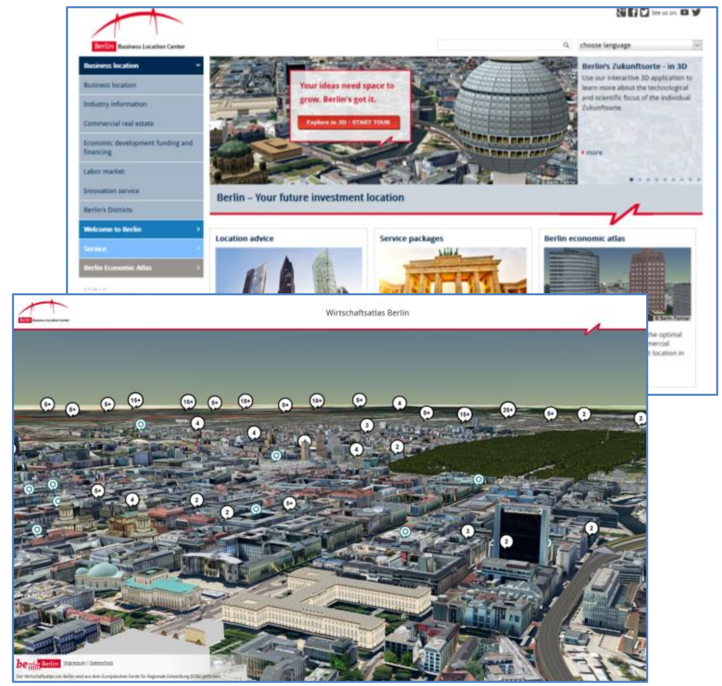


3. Good practice examples – investment attraction

Building upon the established partner network, a range of projects has been initiated in collaboration with the private sector supporting core investment promotion and facilitation tasks of the agency

- For instance, the Berlin Business Location Center constitutes an innovative investment promotion and facilitation tool comprising:
  - 3-D virtual model of the city
  - Real estate portal
  - Economic and infrastructure atlas
  - Platform for legal, financial and HR services
- The services are offered in a showroom and online allowing virtual site visits
- The center is co-financed by 30 companies and institutions, e.g. real estate, utility and HR companies, marketing, tax and legal service providers

Berlin Business Location Center



3. Good practice examples – further mandates

Most German IPAs aiming at generating additional revenues focus their efforts more strongly on activities outside investment attraction. The table below provides an overview of relevant examples. In terms of volume, trade promotion, real estate and cluster management services are of key relevance

IPA	Revenue generating activities
Business Development and Technology Transfer Corporation of Schleswig Holstein (WTSH)	The IPA is supplementing its budget with revenues from the private sector amounting to approximately EUR 1.5 m, including: • Rental income from shared office centres for export-oriented companies in China, India, Brazil and Malaysia (EUR 0.5 m) • Trade fair services, e.g. offering joint booths and complementary matchmaking, marketing and advisory services (EUR 0.6 m) • Membership fees from cluster organisations managed by the IPA (EUR 0.4 m)
Baden-Württemberg International (bw-i)	Fee-based services account for more than half of the budget of the IPA comprising: • Trade fair services (e.g. organising joint booths, registration and communication support, logistical services) and further support for internationalisation processes • Advisory services and project management support in the areas cluster development, innovation transfer and international cooperation

Source: IPAs‘ annual reports, own research

3. Good practice examples – further mandates

The table below provides an overview of relevant examples (cont.)

IPA	Revenue generating activities
State Development Corporation of Thuringia (LEG)	The agency generates substantial revenues (approximately EUR 65 m) with its portfolio of real estate and urban development services, including: • Feasibility studies, zoning and development plans • Developing, managing and marketing industrial and commercial parks, residential and recreational areas • Construction and letting of customised buildings for innovative high-tech firms • Revitalisation of former military and industrial sites
Economic Development Agency Brandenburg (WFBB)	In the past, project funding (mainly from EU funds) accounted for up to approximately half of the agency's budget focusing on the areas: • Cluster management • Skills development • Trade promotion The share has been recently reduced to increase the flexibility of the IPA
Hamburg Invest (HIW)	The IPA raises about EUR 0.5 m from the private sector through: • Rental income and fee-based real estate services • Participation fees • Contributions to events and publications

Source: IPAs' annual reports, own research

4. Preconditions and success factors

Empirical research and practical experience indicate a range of options for IPAs to diversify their funding structure. However, most of those relate to tasks outside the scope of investment attraction and require certain preconditions

- While IPAs have explored a number of new funding options in the recent past, public sector budgetary allocations remain the most common and important budget source
- Most IPAs are still fully or largely funded by public budgets
- Substantial volumes of additional revenues can be primarily generated outside the scope of investment attraction, in particular in the areas:
  - Real estate (e.g. development and management of industrial parks)
  - Export promotion (e.g. trade fair services)
  - Cluster development (e.g. membership fees from cluster initiatives and project funding)
- In the area of investment attraction, the revenue potential is rather limited. While fee-based models are not feasible, contributions from donors and companies that already have a presence can be used to supplement budgets

4. Preconditions and success factors

International experience shows that in particular the following preconditions and aspects should be considered when designing an IPA‘s financing model

- **Legal status and mandates of the IPA:**
  - In addition to the mandates, an IPA’s legal status determines the scope of funding options available
  - In several countries, a certain legal status is needed to generate additional income or implement PPP projects (e.g. public institution or private limited company)
  - However, IPAs are often organised in a form that does not allow to offer fee-based services (e.g. central administrative authority)
- **Needs and resources of potential clients:**
  - An IPA needs to assess carefully whether there is a sufficient base of clients willing and able to pay for services or shares
  - For instance, in Germany, due to structural differences in the company landscape, IPAs in the western part have a much higher revenue potential in the area of trade fair services compared to the agencies in the eastern part

4. Preconditions and success factors

In particular the following preconditions and aspects should be considered when designing an IPA‘s financing model (cont.)

- **Capacities of the IPA:**
  - Most revenue generating activities require specific capacities, e.g. in order to apply for international projects / programmes, to offer fee-based services satisfying the needs of the customers or to develop and manage real estate
  - As a first step, IPAs should identify the specific capacities needed and assess whether it is realistic and makes economic sense to develop those
- **Alignment of financing model with strategic focus:**
  - The financing model of an IPA should not be addressed in isolation
  - The additional funding sources identified throughout the document are always in some way conditional and tied to specific activities
  - It is important to consider the implications of different sources. The type of funding can affect the way an organisation works and who it is accountable to
  - IPAs should avoid to rely on short-term funding to finance long-term activities
  - It should be ensured that the financial footing of an IPA is sustainable and in line with its strategic objectives and core tasks

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

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