The Allen Consulting Group

Evaluation of Invest Australia and its operations

FINAL REPORT

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Report to Invest Australia

The Allen Consulting Group

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Executive summary

Invest Australia is the Australian Government agency that helps international companies to build their business in Australia. Its mission is to attract productive foreign direct investment (FDI) into Australia to support sustainable industry growth and development. Invest Australia does this by promoting Australia's competitive advantages as an investment destination and actively facilitating investment projects into Australia.

Following the Blackburne review in 2001[1], Invest Australia was restructured, its operational charter broadened and it was equipped to provide a strategic, whole-of-government approach to investment promotion and attraction. The previous inward investment activities of Austrade and the National Office of the Information Economy were incorporated into Invest Australia on 1 July 2002. A new Chief Executive Officer was appointed to Invest Australia in October 2002.

The release of the Australian Government's National Investment Framework, *Global Returns*, in December 2002[2] provided direction for a highly strategic, targeted and national coordinated approach to attracting productive FDI into Australia.

The primary role of this evaluation is to assess how Invest Australia has performed against the objectives in *Global Returns*, within the broader context of assessing:

- the appropriateness of the role of Invest Australia, including identifying the role of government in investment attraction, the role of other government agencies and the appropriateness of Invest Australia's strategies (including priority sectors and markets);
- the effectiveness of Invest Australia, including how well the organisation has met the objectives in *Global Returns*, and its key performance indicators; and
- the efficiency of Invest Australia, including an assessment of resourcing and staff issues.

What is FDI and what are its benefits?

FDI is defined by the International Monetary Fund as an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor in order to gain an effective voice in the management of the enterprise.

The main forms of FDI are:

- greenfield investments;
- expansions or re-investments; and
- mergers and acquisitions.

[1] The Blackburne review 2001, Winning Investment: Strategy, People and partnerships. A review of the Commonwealth's investment promotion and attraction efforts.

[2] Invest Australia 2002, Global Returns: The National Strategic Framework for Attracting Foreign Direct Investment

FDI takes place when the foreign direct investing enterprise possesses some major advantage over its competitors at home and abroad and can obtain a competitive advantage through the international coordination of its economic activities. The advantage may be access to capital, but it may also be access to new markets, command over patents or technology, skill and exploration, or superior information gathering and decision making. Control is retained so as to exploit the advantage as fully as possible.

The key benefits of FDI relate directly to the advantages possessed by the foreign direct investing enterprises. Key benefits associated with FDI, apart from the flow of capital itself and the wealth and jobs it creates, include:

- technology and skills transfers – the introduction of new and improved technologies and new skills;
- organisational innovations – the introduction of new and more effective organisational forms and methodologies; and
- links to global networks – this can apply to both supply networks and market networks.

How is Australia placed in global competition for FDI?

Australia has been a recipient of FDI virtually since the establishment of European settlement. At first FDI played a role in building resource-based industries, whether in primary industry or minerals and energy. Later, FDI was important in the development of Australia's manufacturing industries. More recently, FDI is becoming significant in a range of service industries.

As in Canada, FDI and the foreign owned enterprises associated with it have played a significant role in Australia in a number of industries. Australia has in fact punched above its weight in attracting FDI, as its share of global FDI inflows has generally exceeded the share of the Australian economy in global GDP.

However, the fall of the Berlin wall and the opening up to world trade and investment of the Chinese, Indian and Eastern European economies produced an intensification of competition to attract FDI. In response many countries sought to improve their position by strengthening the organisational and other capabilities of their Investment Promotion Agencies that in turn further increased competition to attract FDI. As a consequence from the mid 1990's Australia's share of global FDI flows fell in response to these realities. The Blackburne review and the subsequent decisions to restructure and strengthen Invest Australia were responses to these realities.

Three years on it is timely to evaluate the operations of Invest Australia to establish whether its role remains appropriate and whether its operations are being carried out in an effective and efficient manner.

The role for government in investment attraction

Governments can play an important role in facilitating FDI in their domestic economy. The role for governments include:

- policy advocacy — establishing, through various regulatory and economic policy tools, a sound economic environment for foreign investment;

- image building — promotion and marketing of the positive attributes of the country as a good destination for foreign investment; and
- investment generation and facilitation — including attracting new investment leads (perhaps through image building efforts), and supporting the new lead through to a new investment.

Internationally, incentives are a further mechanism for governments in attracting new FDI. While using incentives may enhance the ability of a country to compete with other countries that also provide incentives, there are risks associated with relying on this approach. These 'footloose' investments often require further servicing and incentives to stay in the region, which begins to erode the broader social benefits of attracting the investment.

Coordination between government agencies

Investment promotion and facilitation activities are undertaken by all States and Territories as well as the Commonwealth Government through Invest Australia. This is therefore an area where Invest Australia must work in conjunction with its State and Territory counterparts to ensure that a consistent approach is adopted, and to minimise duplication of effort.

There are currently protocols in place to manage new investment leads, including the hand-over of leads to State and Territory agencies. These processes have, on the whole, garnered support from all agencies involved (aside from some aspects related to administration and responsiveness).

In consultations for this evaluation, State and Territory agencies recognised Invest Australia's greatest comparative advantage rests with its offshore network, and its promotion and marketing role.

The area of re-investment is a greater concern, and area of uncertainty, in the relationship between Invest Australia and State and Territory agencies. While the States and Territories are concerned about what they consider is an increase in the role of Invest Australia in re-investment, Invest Australia contends that role in re-investment is not new, and is essential in facilitation of new investment projects.

Re-investment is obviously an area of continuing negotiation between Invest Australia and their State and Territory counterparts (given the current protocol development process). It is, however, evident that protocols between governments on re-investment need to acknowledge the local presence of State and Territory agencies and Invest Australia's offshore network as the major comparative advantages of the respective levels of government. In this context, States and Territories should take a lead in using local contacts to develop re-investment opportunities (such as through their aftercare role).

Appropriateness of priority sectors and markets

The reality of constrained budgets for Investment Promotion Agencies (IPAs), like Invest Australia, means that agencies need to prioritise their activities in order to get the best outcomes from the funds that they have at their disposal.

Most large scale IPAs internationally have established priority sectors. Targeting, or priority setting is a logical approach when faced with the prospect of promoting numerous sectors and sub-sectors to an even greater number of markets. Without a targeted approach, IPAs risk spreading themselves too thin across too many areas, without having any significant impact in any one sector. There is scope to use priority setting to target sectors where the government is seeking growth, or sees strong potential for the future (such as new technology sectors). In this case, the approach to promotion and attraction needs to be tailored to take into account the lower level of awareness of capabilities in these sectors.

The current Invest Australia priorities for ICT and biotechnology refer to very broad sectors that have evolved considerably since *Global Returns* was released. In order for Invest Australia resources to be used most effectively, there is scope for a narrowing of the focus to sub-sectors within these broader classifications.

The nature of priority setting means that there are opportunity costs of not attending to non-priority sectors in any significant capacity. Since *Global Returns* some sectors have emerged as being ‘strong performers’, where there are good potential gains through Invest Australia support.

The current priority markets are appropriate given the current sources of FDI, as well as a focus on the emerging market for FDI in China. Further review of the opportunity costs of a lack of focus in Middle-East and India is warranted, to ensure that the current approach continues to be appropriate.

The relative effectiveness of Invest Australia activities

Marketing and promotion

In the period since *Global Returns* marketing and promotion have been areas of significant progress for Invest Australia. The appointment of Garry Draffin as Chief Executive Officer with a marketing and broadcasting background has strengthened the focus on the role of marketing, including larger scale advertising campaigns and the use of a consistent message. The key initiatives have been:

- the launch of *Partnerships for Investment* – the Australian inward investment marketing plan 2003-06, which sets out Invest Australia’s strategies for promotion, including approaches for different markets;
- the launch of the National Investment Brand, *The Future is Here: Technology Australia* to be used in all marketing and promotion conducted by Invest Australia; and
- the launch of the new Invest Australia website, building on the new branding and advertising efforts.

This evaluation sought views from stakeholders on the current marketing and promotion approach of Invest Australia. A majority of stakeholders consulted agreed the stronger focus on marketing and promotion for Invest Australia is a positive step, and is a role where Invest Australia holds a comparative advantage compared with State and Territory agencies.

While most stakeholders recognised the need for, and value of, a National Investment Brand, the current branding is seen to have some shortcomings which need to be addressed. In particular, the use of the 'Technology Australia' terminology with the 'Future is here' is considered to be too generic to the point of not providing a strong message. Further, there is confusion over the use of the various sub-brands, which some stakeholders feel can detract from the concept of setting up a brand which will be recognised.

Attraction and facilitation

While promotion and marketing activities are rather broad and indirect means of developing new investment leads, the other services that Invest Australia provides are significantly more 'hands-on' and rely on skilled staff to develop good relationships with potential investors to guide a lead to the point of new investment.

In consultations for this evaluation, there was considerable emphasis placed on the importance of offshore staff in relationship and network building, from which new leads can be generated. Offshore staff noted the considerable work that they do in targeting potential investors, and arranging events such as seminars, dinners with Ministers or more social events such as wine tastings, to which potential investors are invited. This approach is reported to be particularly valuable in the North American markets.

While it is acknowledged that it is not appropriate to have a 'one size fits all' approach to promotion, attraction and facilitation in different markets, having staff offshore is considered essential for all markets. There is little evidence to support the suggestion that some markets can be serviced by marketing and promotion alone.

Impact on FDI flows to Australia

The major source of information on successful investments facilitated by Invest Australia is through verification surveys conducted by Invest Australia itself. Invest Australia maintains a database of the number and value of foreign investment projects it has facilitated (as identified through the verification surveys), with information on the extent of Invest Australia's role in the success of the investment. Based on this information, Invest Australia and Axiss Australia attracted:

- A$6.95 billion of new and acquisition investment and 4377 new jobs in 2002-03;
- A$7.1 billion of new and acquisition investment and 2610 new jobs in 2003-04; and
- A$10.6 billion of new and acquisition investment and 4352 new jobs in 2004-05.

Most of the benefits from the new investments attracted can be attributed to the programs offered by Invest Australia, namely Major Projects Facilitation and the Supported Skills Program. Over the three years for which data is available, the programs have accounted for between 57.9 per cent and 96.3 per cent of all new and acquisition investment attracted, and between 15.5 per cent and 75.7 per cent of new jobs created.

The survey of investors conducted for this evaluation sought views from investors on the impact of the support that they received from Invest Australia on the success of their investment. The majority of investors surveyed for this evaluation reported that the support received from Invest Australia had a significant impact on the success of their investment (56 per cent reporting either high or very high impact). This result is a strong indicator of the effectiveness of Invest Australia's assistance in progressing those new investments that may otherwise have found it difficult, or more costly to undertake in Australia.

Performance Indicators

An integral part of running any program — government or otherwise — is providing staff with incentives to meet the objectives of the organisation, and to ensure that there are mechanisms in place to measure and evaluate the performance of the employees, as well as the performance of the program. A central consideration with respect to program design is the selection of appropriate performance indicators to apply to staff as well as to the program.

For Invest Australia, this evaluation found that:

- Invest Australia's objectives and Key Performance Indicators are appropriate.
- Changing the relative emphasis on KPIs away from the core set could encourage staff to increase their efforts towards longer-term objectives.
- Targets should be reviewed annually to ensure that they encourage an increase in outcomes and outputs over time.

Axiss Australia

This evaluation recognises the role of Axiss Australia, an agency within Invest Australia that has a specific role and focus that is different from the other operations of Invest Australia. Axiss Australia has the objective of positioning Australia as a global financial services centre. In relation to the role of effectiveness of Axiss Australia, this review found that:

- Axiss Australia has been very successful operating as an agency which provides specialised services to a particular sector. Its staff are recognised as having very strong industry knowledge.
- Axiss Australia has excellent linkages with the financial service sector, and provides a policy advocacy role for the industry in working with government agencies and regulators to remove barriers to foreign investment in the financial services sector.
- There is strong recognition of the Axiss brand, which is well established within the sector.
- There are, however, concerns over reduced staffing numbers in the agency since the merger with Invest Australia, and the impact of this reduced capacity on the ability of the agency to continue to service the sector.

Budget, staffing and resources issues

There are a number of important staffing issues that were discussed by several stakeholders in consultations. Most prominent were views that there are significant benefits to be achieved through increasing the numbers of offshore staff. This is an issue that has been mentioned consistently throughout this report in various discussions on the value of the offshore network and attraction and facilitation services that it provides.

Evaluation recommendations

The major finding of this evaluation is that there is a clear and well-supported case for Invest Australia, including Axiss Australia, being a continuing program of the Australian Government. There is a continuing rationale for government involvement and the role of Invest Australia remains appropriate. There is a continuing need for investment promotion and Invest Australia is achieving the goals set out in *Global Returns*.

The review has identified a number of issues where improvements would enhance Invest Australia's performance. This is the subject of the recommendations listed below.

- Invest Australia should further develop its cooperation with State and Territory agencies with the objective of improving the timeliness and depth of communications as well as the overall effectiveness and division of labour between the two levels of government.
- The respective roles of Invest Australia and its State and Territory counterparts in re-investment should reflect the comparative advantages of States and Territories onshore and Invest Australia offshore, while recognising that inter-state expansion and offshore decision making justify an involvement by Invest Australia.
- Invest Australia should review its current branding and sub-brands with a view to simplifying the branding, reducing the numbers of sub-brands and responding to the feedback from stakeholders.
- Invest Australia's broad marketing strategy has been effective but there is a need to move to more sector-specific marketing to address particular information needs, especially in the priority sectors.
- There would be benefits from narrowing the focus of the priority sectors to ensure that Invest Australia's effort is directed to projects that offer the best overall returns. In addition, priority areas that offer better prospects such as agribusiness should be given a higher profile.
- The facilitation role of Invest Australia is the key to investment success and should be maintained and strengthened. Invest Australia cannot rely on marketing alone to achieve its objectives.
- The Axiss Australia brand has strong recognition in the financial services industry and should be maintained. Axiss' role is important and effective and merits additional resources.

- Invest Australia should increase the numbers of its offshore staff. These staff are at the forefront of Invest Australia's efforts to identify potential new investment. Increasing their numbers and support has the potential to significantly increase Invest Australia's performance.
- Support for offshore staff should be enhanced through increased cooperation with Austrade and DFAT and, in particular, co-location with Austrade (where co-location involves sharing of administrative services and support).
- Offshore staff should be given more opportunities to visit Australia for training, site visits and familiarisation opportunities (eg biotechnology conferences).

Chapter 1

Background and context

1.1 Recent developments in Australia's investment promotion policy

The Australian Government, recognising Australia's declining position as a foreign investment destination, and the importance of Foreign Direct Investment (FDI) to economic growth, established Invest Australia in 1997 as Australia's national inward investment agency to promote inward investment. This was in direct response to the 1997 Review of Business Programs, headed by David Mortimer.[3] The review found that Australia's level of investment was insufficient to achieve economic growth targets.

More recently, the Blackburne report, 2001, *Winning Investment,* identified the need for a more coordinated approach to investment attraction and promotion. On the basis of these recommendations, the government released *Global Returns: The National Strategic Framework for Attracting Foreign Direct Investment* in 2002. The report outlined structural changes for Invest Australia, including absorbing the previous inward investment activities of Austrade and the National Office of the Information Economy.

The overarching objective of Invest Australia is to attract productive foreign direct investment into Australia to support sustainable industry growth and development. It does this by promoting Australia's competitive advantages as an investment destination and actively facilitating investment projects in Australia. Invest Australia leads a Team Australia approach, working in partnership with State and Territory governments and industry to ensure that the right perception of Australia is generated in global markets. It has investment industry specialists in eight countries around the world and four Senior Investment Commissioners in Europe, North America, Japan and China.

Invest Australia also provides:

- *Major Project Facilitation* — through the MPF service, Invest Australia provides prospective investors with information, advice and support to assist with necessary government approvals.
- *Supported Skills Program* — designed to encourage international firms to choose Australia as a location for FDI by allowing companies that make a significant investment in Australia to bring in key expatriate managerial and specialist employees from within the company group.
- *Strategic Investment Coordination administration* — Invest Australia provides administrative support for the operations of the Strategic Investment Coordination process, in which the government considers requests for investment incentives.

[3] D. Mortimer 1997, *Going for Growth: Business Programs for Investment, Innovation and Export*, Review of Business Programs.

1.2 *Global Returns* initiatives

The framework document for assessing the role and performance of Invest Australia since 2002-03 is *Global Returns*. This document sets out the strategy for investment promotion from 2002-03 onwards, including a set of key initiatives for Invest Australia. Throughout this report, these initiatives in *Global Returns* are referred to, and progress against these objectives is consistently assessed. These initiatives are listed in appendix D of this report. While extensive and detailed, there are number of key areas for action which this evaluation has assessed Invest Australia's performance against.

- Developing national leadership and partnerships in investment promotion, attraction and facilitation.
- Taking a strategic direction through setting priority sectors for investment promotion, attraction and facilitation.
- Establishing a consistent approach to marketing and promotion through a national marketing plan and National Investment Brand, and the launch of a new website.
- Developing clear protocols and processes for lead generation.

1.3 This evaluation

The Allen Consulting Group has been engaged by Invest Australia to conduct this evaluation of Invest Australia and its operations, including Axiss Australia. The primary role of this evaluation is to assess how Invest Australia has performed against the objectives in *Global Returns*, within the broader context of assessing:

- the *appropriateness* of the role of Invest Australia, including identifying the role of government in investment attraction, the role of other government agencies and the appropriateness of Invest Australia's strategies (including priority sectors and markets);
- the *effectiveness* of Invest Australia, including how well the organisation has met the objectives in *Global Returns*, and its Key Performance Indicators; and
- the *efficiency* of Invest Australia, including an assessment of resourcing and staff issues.

The full Terms of Reference for this evaluation are provided in appendix B.

Evaluation methodology

This report provides an assessment of the recent performance of Invest Australia and its operations. This assessment is based on information compiled through a number of research and consultation stages.

Government consultations

The evaluation team conducted 34 interviews with 21 government agencies for this evaluation, including:

- investment promotion agencies in each State and Territory (including five face-to-face interviews and three phone interviews);

- Commonwealth government agencies, including the three central agencies and relevant line agencies; and
- senior staff, including offshore staff, from Invest Australia and Axiss Australia.

The full list of government agencies consulted is provided in appendix C.

Industry association consultations

The evaluation team sought written comments from Australian industry associations on the role of Invest Australia and Axiss Australia. Ten associations or organisations provided written comments to the evaluation, with a further two associations interviewed by the evaluation team. A full list of associations who provided comments for this evaluation is provided in appendix C.

Business survey

The evaluation team conducted an email survey of firms that have had some interaction with Invest Australia or Axiss Australia, including:

- firms who have made a successful investment in Australia with assistance from Invest Australia;
- firms who have participated, or are currently participating, in an Invest Australia program, or applied unsuccessfully for support from an Invest Australia program;
- firms who are currently working with Invest Australia on a potential investment (current 'leads'); and
- firms who have received support from Axiss Australia.

The evaluation received 77 responses to this survey, a response rate of 34 per cent, with 93 per cent of responses coming from overseas firms. Data on the sample of responses received for the survey is provided in appendix C.

Part A

Appropriateness — the role for government in investment attraction

Chapter 2

The benefits of inward FDI to the Australian Economy

2.1 What is Foreign Direct Investment?

Foreign Direct Investment (FDI) is defined by the IMF as 'an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor'.[4] The direct investor's purpose is to gain an effective voice in the management of the enterprise.

The unincorporated or incorporated enterprise — a branch or subsidiary, respectively, in which direct investment is made — is then the 'direct investment enterprise'. Some degree of equity ownership is always considered to be associated with an effective voice in the management of an enterprise, and the IMF recommends a minimum 10 per cent share of equity ownership for a foreign investor to qualify as a foreign direct investor.

There are several forms that FDI can take, such as:

- *Greenfield investments* — which involve direct investment in the establishment of new facilities. For developing countries, greenfield investment tends to be the primary target of a host nation's promotion efforts because they create new production capacity and jobs, transfer technology and know how, and can lead to integrated linkages in the global marketplace
- *Expansions or re-investments* — which involve the expansion of already existing facilities or investments in closely related facilities. Re-investment tends to be of greater importance for developed countries, which already have a large and diversified base of enterprises in their economy from which to build.
- *Mergers and acquisitions* — which involve existing enterprises domestic to the destination country. The foreign direct investing enterprise acquires the existing assets of local firms. Mergers and acquisitions tend to be most important in developed countries.

The forms of foreign investment that are treated as FDI are equity capital, the re-investment of earnings and the provision of long-term and short-term intra-company loans between parents and their affiliate enterprises. The most important characteristic of FDI — which distinguishes it from foreign portfolio investment — is that it is undertaken with the intention of exercising control over an enterprise in another country.

The literature identifies three reasons for which an investor might choose FDI over investing within their own economy. These are:

- to access markets for the enterprise's products and services;
- to access resources that are not available in the home country of the foreign investor; and

[4] International Monetary Fund 1993, *Balance of Payments Manual: Fifth Edition*, Washington, D.C.

- to locate the production of goods and services in countries with a lower cost structure.

It is not, however, necessary for companies to undertake FDI in order to obtain these benefits, or exploit these advantages. For instance, instead of servicing offshore markets through production facilities located in those markets, the company can meet this demand by way of exports from their home base. In terms of accessing resources, the company could purchase them at arms length from enterprises domestic to the destination country. Finally, in terms of accessing low cost production locations, the company could outsource this supply to foreign companies. The question then becomes why a company would choose to achieve these objectives through FDI, rather than through the alternatives described.

The generally accepted answer is that FDI involves the international operation not only in a financial capacity, but also in terms of entrepreneurial talent and management practice. FDI also tends to take place when the enterprise has some major advantage over its competitors at home and abroad, and can obtain a competitive advantage through the international coordination of its economic activities. The advantage may be access to capital, but it may also be access to new markets, command over patents or technology, skill in exploration, or superior information gathering and decision-making. Control is retained so as to exploit the advantage as fully as possible.

2.2 Benefits of FDI — to the destination country

Given the nature of FDI (ultimately, it involves the exercise of control over an enterprise) and the reasons why it takes place (the presence of unique advantages held by the direct investing enterprise over its competitors at home and abroad) a number of benefits specific to FDI can be identified. It is the presence of these advantages which justify the targeting of FDI over other types of foreign investment (eg, foreign portfolio investment).

In consultations for this evaluation, several senior public servants indicated that they believe that the mix of sources or types of funding used to finance investment is something best left to the market to decide. However, they agreed that there are a number of benefits obtainable from specifically targeting FDI over other forms of financing. A recent report by Access Economics[5] provides empirical support for this belief.

As indicated in chapter 1, Invest Australia describes its mission as the attraction of productive FDI into Australia to support sustainable industry growth and development. Some of the key benefits associated with FDI over other types of foreign investment funding include:

- *Increased foreign control and, therefore, increased commitment and stability* — FDI is differentiated from foreign portfolio investment based on the degree of ownership or control the foreign entity has over the domestic business. There is a widely held view that this increased level of ownership and commitment (evidenced through establishing a business, hiring local staff, registering a company, etc) reduces the risk of capital flight, or of investment or debt finance being rapidly recalled.

[5] Access Economics 2004, *The Benefits of Inward Foreign Direct Investment to the Australian Economy — A report for Invest Australia*, Canberra.

- *Improvements in management, product design, adoption of new technologies and service delivery* — the introduction of new companies, or a significant degree of foreign control into an existing domestic company can bring with it new management techniques, new product lines, new methods of delivery or benefits which are even more intangible – such as a new work culture or corporate ethic. These benefits can be passed on horizontally, through the movement of employees between foreign and domestically owned companies, or through competitor firms adopting international best practice; or vertically through the implementation of change throughout a supply or distribution chain.

- *Contributions to business R&D and innovation* — studies done in Australia on business R&D tend to show that the multinational corporations (the main contributors of FDI) spend higher proportions of their turnover on R&D than do Australian-owned companies. To the extent that this is true, they are likely to provide significant spillovers in addition to the initial value of the investment. Improved technology transfer also assists in attracting and retaining leading-edge researchers, as well as keeping their knowledge up to date.

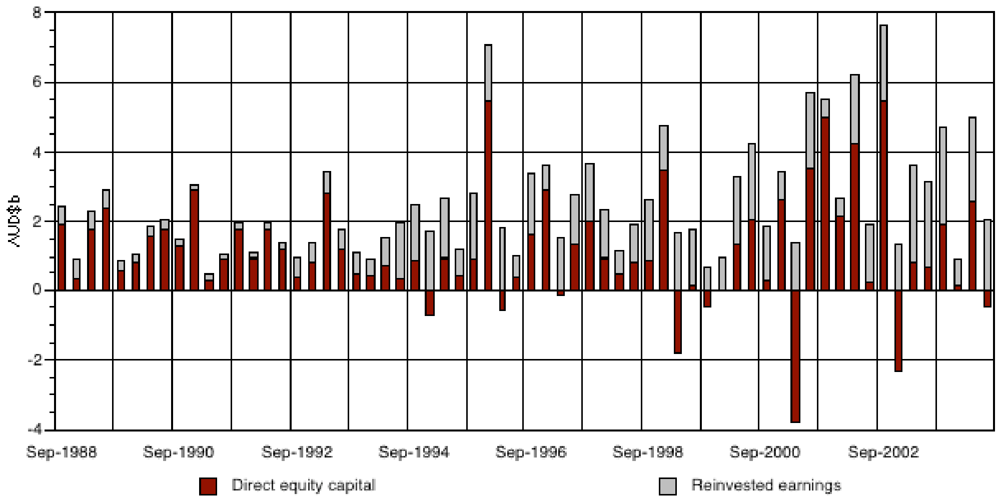
- *Improvements to export propensity* —Australian firms with a higher degree of foreign ownership generally have a higher than average export propensity[6]. This can be attributed to the fact that companies with a higher degree of foreign ownership are likely to have a more global or outward focus, and are able to compete in the global market. This may be through better understanding of international standards and best practice, access to markets, or a knowledge of overseas supply networks. This is not to say that domestic firms lack this knowledge. However the costs of gathering this information for a firm with a significant degree of foreign ownership is likely to be far less than for a fully domestic firm.

- *Increased likelihood of re-investment* — FDI flows into Australia are measured by adding together new sources of funding, and earnings generated in Australia which are reinvested into the business. Figure 2.1 shows the proportion of FDI made up of reinvested earnings. FDI also has the added advantage of not always requiring dividend or interest payments — the return on investment, while captured by the foreign entity, is based solely on the performance and profitability of the firm.

[6] Access Economics 2004, *The Benefits of Inward Foreign Direct Investment to the Australian Economy — A report for Invest Australia*, Canberra, p. 19.

Figure 2.1

FDI SPLIT INTO EQUITY CAPITAL AND REINVESTED EARNINGS



Source: ABS Catalogue Number 5302.0.

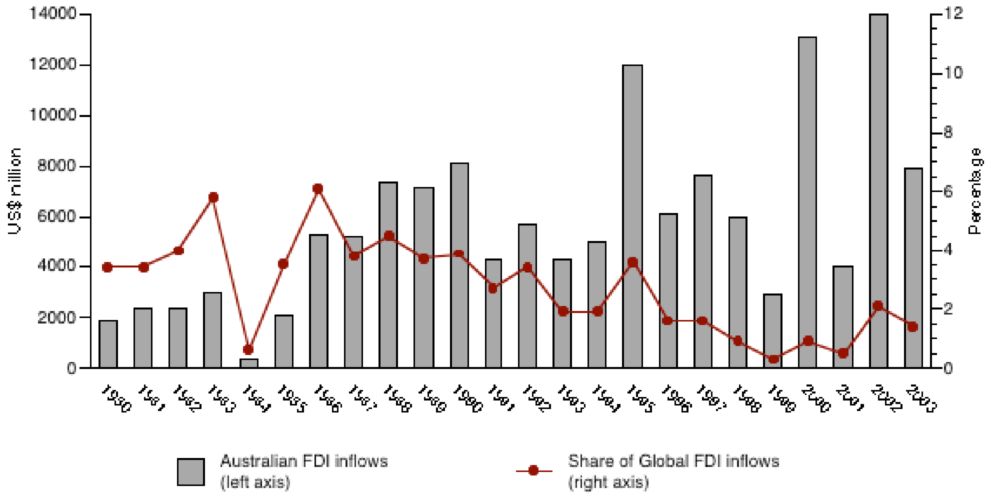
- *Entry by foreign multinationals* — benefits associated specifically with multinational companies entering the domestic market include:
  - increasing competition and productivity in domestic firms in the same industry;
  - supply linkages between multinationals and domestic firms, leading to increased employment, higher wages, etc; and
  - lower prices on the multinational's products or services (due to reduced transport and storage costs, surmounting a tariff or other import barrier by shifting production inside Australia, etc).

2.3 Recent trends in FDI in Australia

The inflows of FDI received by Australia each year for the period from 1980 to 2003, and the share that this represents of global FDI inflows are shown in figure 2.2. The actual inflows of FDI received by Australia have been rather volatile and it is hard to detect trends. However, in terms of the share of Australian FDI of global FDI, there was a noticeable downward trend from 1986 to 1999, followed by stronger performance between 2000 and 2003.

Figure 2.2

AUSTALIAN FDI INFLOWS AND SHARE OF GLOBAL FDI, 1985 TO 2003



Source: The United Nations Conference on Trade and Development 2004, *World Investment Report 2004: The Shift Towards Services,* Geneva pp 376-9.

As far as the trend in Australia's share of global FDI inflows is concerned, some major influences have been at play in the last fifteen years, which lie outside Australia's control. These include:

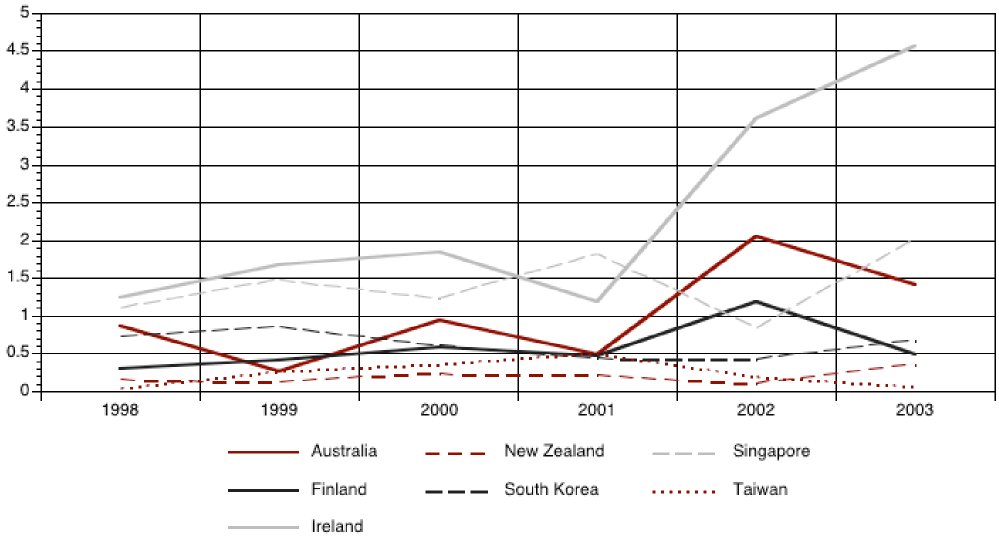
- the opening of Central and Eastern Europe to the global economy following the fall of the Berlin wall in November 1989;
- the great attractiveness of China as a location for FDI;
- the changing fortunes of parts of Asia in the context of the Asian crisis of 1997; and
- the ICT related 'tech wreck' in 2001.

Apart from these shocks, the size of the global pool of FDI flows has generally increased since 1980. A key driver of that growth in the 1980s and 1990s was the remarkable expansion of the world's ICT industries and the move to globally integrated supply chains – for example, whole parts of the production system were relocated to Asia, from the USA and Western Europe. Globalisation of supply chains in other industries such as the automotive industry has also been a driving force for growth in global FDI flows. More recently, FDI flows associated with the services industries have played an increasingly important role.

Figure 2.3 shows Australia's share of global FDI inflows compared to those of a number of other countries that either have a broadly similar economic size to Australia or a comparable profile in terms of the kind of FDI they are trying to attract. Australia compares relatively well on this measure to Finland, New Zealand and South Korea. However, Australia has been outperformed by Ireland and Singapore — both of which have smaller economies than Australia, but have based their economic development strategies on attracting very substantial inflows of FDI not just in their ICT and biotechnology/pharmaceuticals industries, but also in banking and finance and other high end services.

Figure 2.3

NATIONAL SHARES OF GLOBAL FDI INFLOWS, 1996 TO 2003



Source: The United Nations Conference on Trade and Development 2004, *World Investment Report 2004: The Shift Towards Services,* Geneva pp 376-9.

In terms of the countries from which Australia has successfully attracted FDI inflows, historically our greatest reliance has been on the USA (eg automotive, ICT, food processing, pharmaceuticals and petroleum), the UK (eg food processing, petroleum and pharmaceuticals) and Japan (eg automotive and investment associated with the Japanese trading houses). Australia has also received significant inflows of FDI from France (eg insurance and hotels), Germany (eg automotive and telecommunications) and in more recent times, from other countries in Asia. Figure 2.4 shows the share of inward FDI inflows for a number of source countries in three years: 1991-92, 1996-97, and 2001-02.

According to the Foreign Investment Review Board's Report 2003-04, the USA was the largest source of foreign investment approvals ($29.8 billion). Singapore, the UK and Germany were the other major sources of proposed investment approvals in 2003-04, accounting for 9 per cent, 7 per cent and 6 per cent respectively.

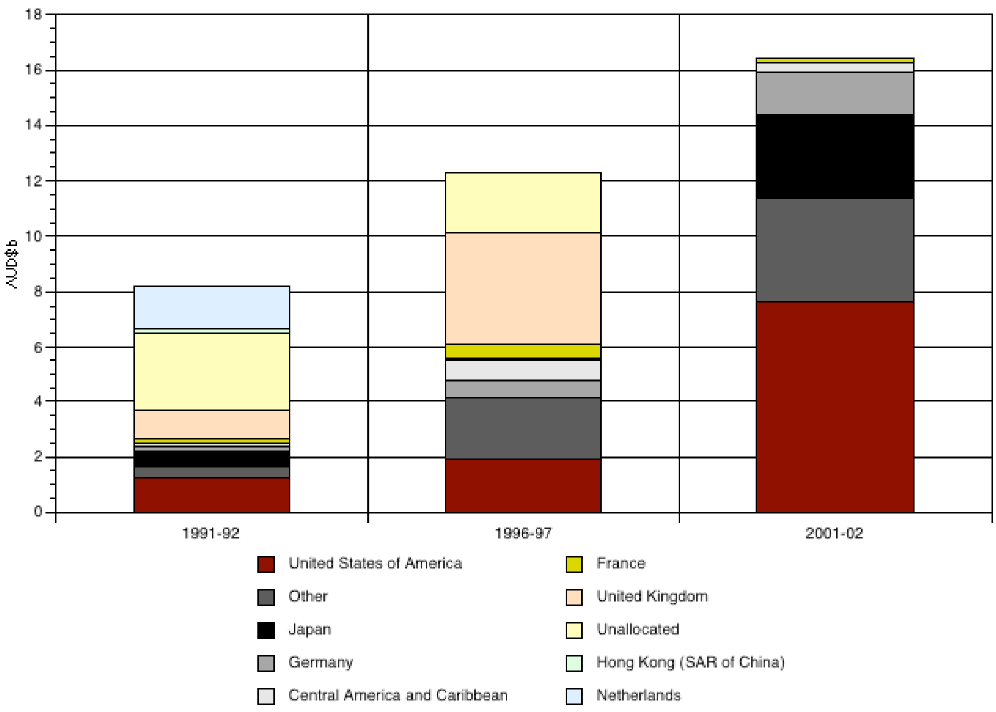
FDI remains important to Australia's future growth and development. When considering the countries from which Australia has tended to be successful in receiving FDI, historically we have relied on the USA, Japan and the UK. Figure 2.4 shows the pattern of FDI into Australia by these countries from 1991-92 onward. Reflecting this, one of the key benefits judged to follow from the negotiation of the USA-Australia Free Trade Agreement is that it is likely to improve Australia's ability to attract FDI from the USA, which remains Australia's largest source of FDI.

Figure 2.6 gives an indication of the importance of FDI for a number of broad Australian industry categories in 2000-01. The foreign-owned firms share of value added is highest in mining (45 per cent) and manufacturing (34 per cent) — it is also over 30 per cent in wholesale trade, which may be a reflection of the importance of the activity of the very large Japanese trading houses.

Due to confidentiality considerations, no estimate is available for finance and insurance. However, there are a number of notable foreign-owned firms active in the sector. These include, AXA (insurance) and some of the world's leading investment banks (finance). FDI plays a comparatively small role in sectors such as construction, retail trade, and accommodation, cafes and restaurants. Still, there are some well-known foreign companies with significant presences in Australia eg, Hochtief[7] and Bilfinger and Berger[8] in construction and the US and European owned hotel chains, in accommodation.

Figure 2.4

SHARE OF FDI INFLOWS TO AUSTRALIA, BY COUNTRY



Source: ABS Catalogue Number 5352.0.

For Australian industry in total (with the exception of agriculture, fisheries and forestry), foreign owned firms contributed 22.9 per cent of value added. Figure 2.5 also shows the contribution to industry value added of foreign owned firms in sectors where their activity is relatively minimal. The level of activity by foreign owned firms is lowest in private community services (1.2 per cent), cultural and recreational services (6.0 per cent) and other manufacturing (7.0 per cent).

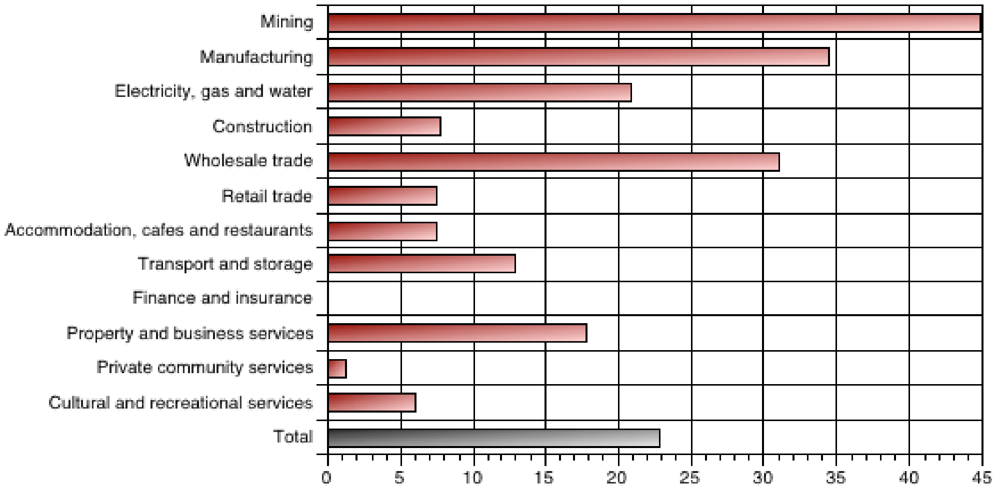
According to the Foreign Investment Review Board's Report 2003-04, apart from real estate, services was the largest industry sector by value of investment approvals ($34.8 billion), manufacturing was next ($23.1 billion) followed by mineral exploration and development ($11.5 billion).

7 Leightons.

8 Baulderstone and Hornibrook.

Figure 2.5

FOREIGN OWNED FIRM SHARE OF VALUE ADDED IN AUSTRALIAN INDUSTRY FOR 2000-01, PERCENTAGE



Note: No estimate is available for the finance and insurance industry for 2000-01 due to confidentiality considerations.
Source: ABS Catalogue Numbers 5494.0.

Chapter 3

Global competition for FDI

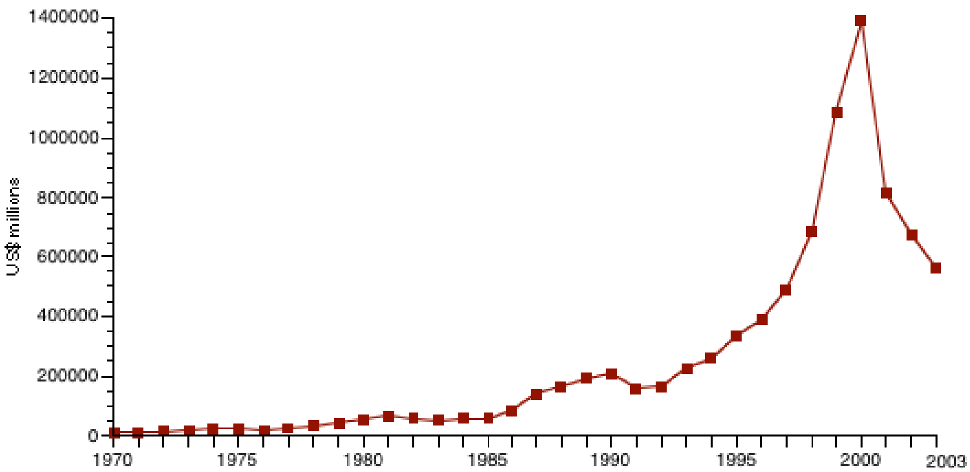
3.1 Global trends in FDI

FDI has been an increasingly significant contributor to global economic growth since the early 1990s, and is an essential element of the globalisation process. Nevertheless, flows of FDI are themselves influenced by the state of the global business cycle. Between 1995 and 2000 global FDI flows grew by an average of 42 per cent per year, peaking at US$1.3 trillion in 2000.

Since 2000 a slowdown in global economic growth has seen FDI flows fall to US$560 billion in 2003. This trend has been driven by large falls in capital inflow to the USA due to weaker economic conditions (see figure 3.1). Over the last two decades, FDI has grown in importance in the global economy, with FDI stocks now constituting over 20 per cent of global GDP.

Figure 3.1

GLOBAL TRENDS IN FDI INFLOWS, 1970 TO 2003



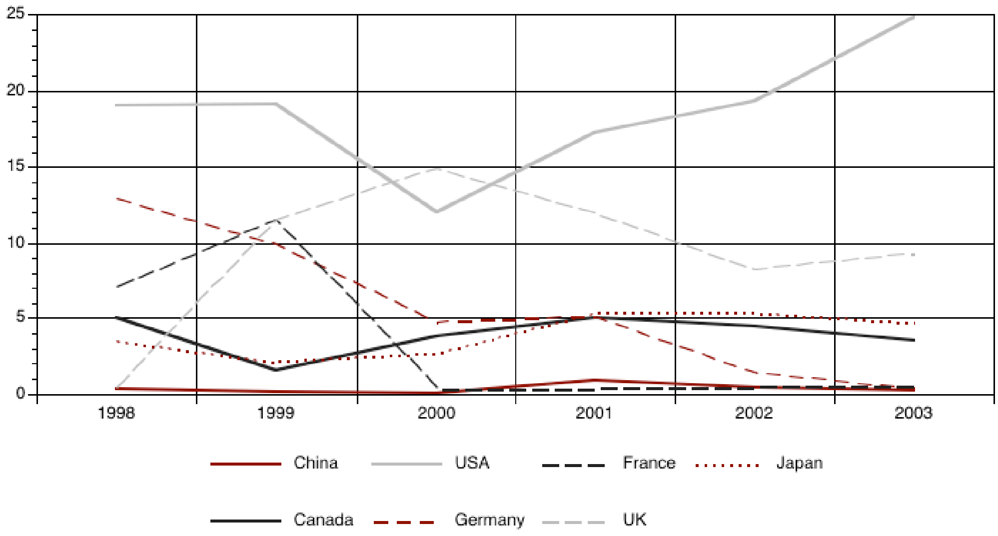
Source: UNCTAD data accessed from http://www.unctad.org

While business cycle conditions have reduced FDI flows in recent years, they are still high compared with historical trends. Reflecting the benefits widely perceived to be associated with FDI (outlined in chapter two), there is increasing competition between countries to attract foreign investment. More countries are opening up their borders to trade and investment and are willing to provide increased incentives for foreign investors as part of wider economic development strategies (for example, China).

In addition to emerging markets like China and India competing for the available pool of global FDI, these economies can also contribute to the pool of global FDI. It is not unreasonable for a country such as China to try to attract FDI into its manufacturing sector (an area of comparative advantage for China), while at the same time exporting capital off-shore into, say, the natural resources or minerals sector of another country (an area of comparative advantage for that other country) in order to ensure access to needed raw materials. Figure 3.2 shows the proportion of global FDI outflows of selected countries.

Figure 3.2

NATIONAL SHARES OF GLOBAL FDI OUTFLOWS, 1996 TO 2003



Source: The United Nations Conference on Trade and Development 2004, *World Investment Report 2004: The Shift Towards Services,* Geneva pp 376-9.

FDI flows from a source country to a host country tend to expand over time, as investors in the source country become more familiar with the destination country. For example, if a foreign investor successfully sets up a manufacturing plant in Australia, it becomes somewhat easier to attract subsequent FDI from the investor's home country — the original investor may seek to get associated suppliers to also locate in Australia, there is a success to point to, and the number of investors who are familiar or comfortable with investing off-shore in Australia increases.

The development of a critical mass of investors can make subsequent investment attraction from that country relatively easier — for example, as foreign investors become more familiar with the language, business culture and reputation, of the destination country. As such, it can be worthwhile not only to focus on the countries from which Australia has historically received significant flows of FDI, but also to develop relationships and expand networks in countries which have potential, and which have shown some interest in Australia, in order to foster this critical mass.

While in principle, FDI can occur in virtually all industries, in practice, certain industries have tended to account for very considerable shares of global FDI flows. In the manufacturing sector, the main sectors where FDI has tended to be important are automotive, ICT, chemicals and pharmaceuticals, biotechnology and food processing.[9] FDI has also been important in resources as the world's leading resource countries have invested to develop oil and gas and other natural resource reserves located outside their main markets.

In more recent times, FDI has started to flow into the service industries, especially those associated with accommodation and tourism.

3.2 Competition for global FDI

There are several key elements to competing for a share of the global FDI pool. First, the broad attractiveness of a country compared to that of other countries, and second, the efforts a country makes to promote itself as a location for FDI and to attract such investment.

Country attractiveness

Other things being equal, the attractiveness of a country as a location for FDI, compared to other countries, will depend on a number of factors, such as:

- the strength of its economy and hence the opportunities it offers for profitable FDI;
- the presence of country-specific factors which its economy possesses, eg, a country with a rich natural resource base can expect to attract investment from the world's leading resource companies;
- its economy's openness to FDI;
- the transparency of the business regulation system and the degree to which a 'level playing field' exists between foreign owned and locally owned companies; and
- the integration of its economy with the global economy.

When these factors are considered, it is perhaps not surprising that the world's largest economy – the USA – is both the world's biggest source of and host to FDI. In principle, all OECD countries, and an increasing number of emerging countries, possess the characteristics listed above. Given the array of sources of information about economic performance and structure available to investors, these broad factors should be reasonably well known to sophisticated multinational corporations, which are the main sources of FDI.

What will almost certainly be less well known are the particular capabilities that exist in individual economic sectors, and the business opportunities that could be exploited by gaining access to them. This is where investment promotion agencies come into the picture – they have an important role to play in terms of overcoming information gaps.

[9] These industries tend to have far flung supply chains which are now being globally integrated.

Investment Promotion Agencies (IPAs)

Invest Australia faces competition from roughly 500 foreign investment promotion agencies worldwide. Of these, roughly half are national IPAs, while the remainder are sub-national — representing provinces, states, cities and even local councils. Many of the foreign IPAs also target investment in the same industries that Invest Australia has identified as being priority targets.

Relative to other activities in which government plays a leading or coordinating role, investment promotion is a relatively new initiative in Australia, especially at the Commonwealth level. State governments have been involved in investment attraction for many years. The Australian Government entered the field only in the late 1980s. Invest Australia was established in 1997.

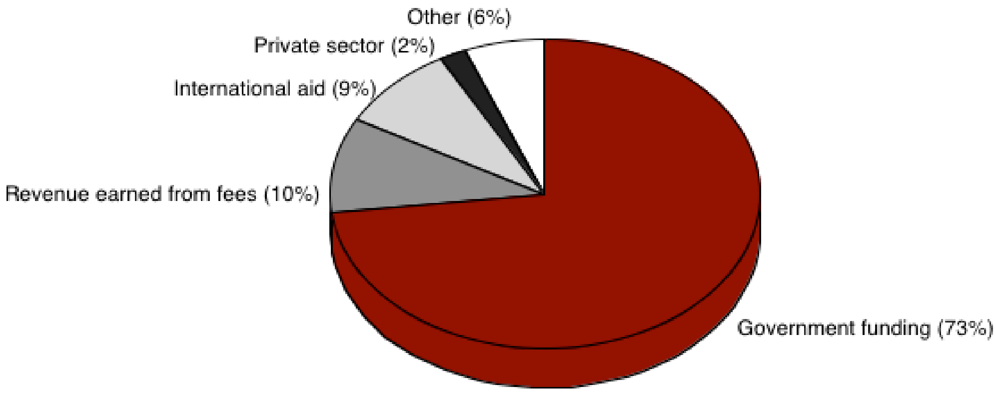
Investment promotion has formed a significant part of economic development, industry and trade policies in many countries (and indeed regions within countries) from the 1960s and 1970s onwards. Singapore, for example, established the Singapore Economic Development Board in 1961, as part of a larger economic growth strategy. Ireland established the Industrial Development Board in the 1970s as part of a strategy to change the perception of Ireland from an economy reliant on agriculture and primary production into a leading ICT and biotechnology hub.

In addition to this, the liberalisation of world trade in the 1980s and the opening up of markets in Eastern Europe and the former Soviet Union in the 1990s increased the number of new players in the competition for global FDI, as well as the number of possible projects and initiatives to attract foreign investors. There has been a significant improvement in the tradability of services, for instance through developments in ICT, and thus a corresponding increase in services FDI. As investment opportunities around the world increase, the role of national investment promotion agencies in making investors aware of the benefits and opportunities available in a particular country becomes proportionally more important.

Given the rationale for a government role in investment promotion (discussed further in chapter four), it is not surprising that the majority of IPAs are government funded and administered — albeit with a corporatised focus. Figure 3.3 shows the proportion of IPAs surveyed in 2000 that were funded by government, as well as the proportion of IPAs funded by other sources. As can be seen, almost three quarters of IPAs internationally are government funded.

Figure 3.3

PROPORTION OF IPAS IN 2000 THAT WERE FUNDED BY…

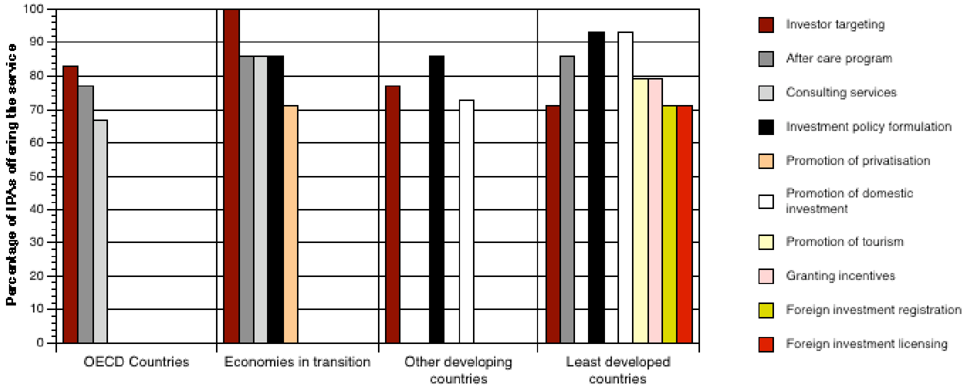


Source: UNCTAD survey of investment promotion agencies, 2000.

IPAs around the world have different core functions, which can be linked to the stage of development that their country is at. For example, IPAs in developing countries provide investment registration and licensing — a practice that is no longer required by most OECD countries. Figure 3.4 shows the core functions as reported by IPAs in a number of countries, by level of economic development.

Figure 3.4

CORE FUNCTIONS OF IPAS



Source: UNCTAD survey of investment promotion agencies, 2000.

IPAs provide a number of services, including coordinating offshore investment by their domestic investors, attracting offshore investment into the country, and working with domestic and foreign companies with a view to creating a match for FDI or other investment. In general, the pattern appears to be that the more developed a country is, the fewer services the IPA offers. This is in part due to the fact that developing countries run several programs or services out of the same department, and sometimes out of the same office. It can also be attributed to the fact that developed countries have fewer barriers to investment, and so for IPAs in developed countries there are fewer services that can be provided by government.

3.3 How Australia compares

UNCTAD's 2004 World Investment Report categorises the performance of a country's investment attraction along the following lines:

- **front-runners:** countries with both high FDI potential and performance;
- **above potential**: countries with low FDI potential but strong FDI performance;
- **below potential:** countries with high FDI potential but low FDI performance; and
- **under-performers:** countries with both low FDI potential and performance.

For the periods 1988-90 and 1993-95, Australia was rated as a 'front-runner', with high FDI potential and performance. For the period 2000-02, Australia was rated as performing 'below potential' — high FDI potential, but low performance. This was also reflected in Figure 2.2, where Australia's share of global FDI started to decline from 1995 onward, although as noted in chapter two, the share picked up between 2000 and 2003. Nevertheless, the World Investment Report indicates that there is yet greater potential which has not been fully exploited.

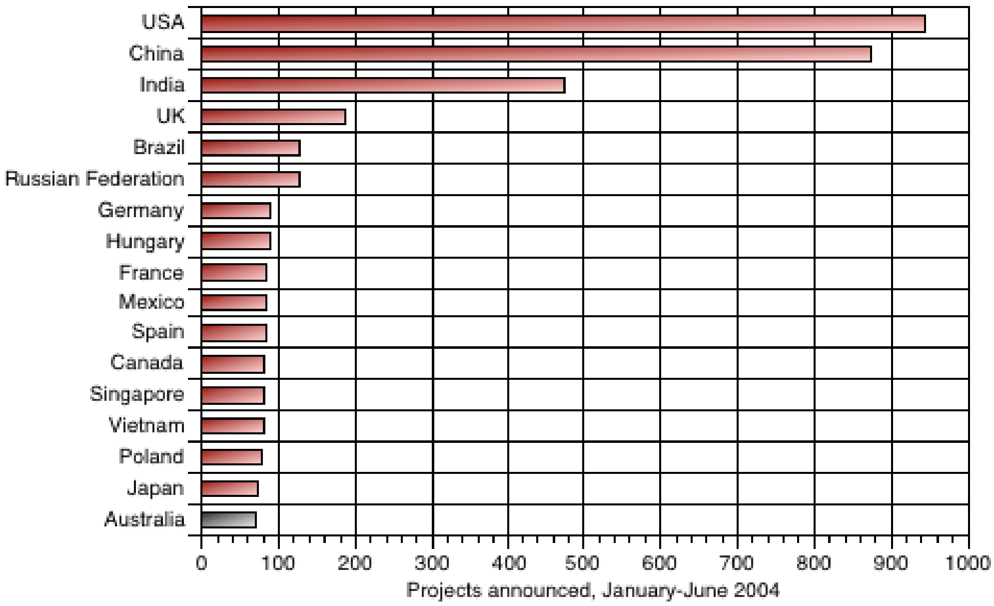
According a recent study by IBM's Plant Location International (IBM-PLI), during the first half of 2004, the top destinations for FDI were the USA (946 new projects announced), China (874), India (475) and the UK (186). Of these, it should be noted that the World Investment Report considered the USA and China as below potential, and India as an under-performer for the period 2000-02.

Out of 131 countries considered in the IBM-PLI report, Australia was seventeenth, attracting 70 new projects in the first half of 2004 (see Figure 3.5). By and large, the ranking of countries as FDI destinations shown in figure 3.5 tends to reflect the relative size of their economies. The USA, which is the world's largest economy, is at the top of the list. The middle to large size economies of Europe (Germany, UK and France) lie in the middle to upper part of the ranking, while Australia, which is one of the smaller economies shown in figure 3.5, is in seventeenth place.

There are, however, some notable exceptions that are worth comment. Japan, which is one of the world's largest economies is in sixteenth place — this reflects Japan's national strategy to obtain access to technology that can come bundled with FDI in other ways, and the low growth of the Japanese economy since the bubble burst in 1990. The emerging economies of China and India and the Russian Federation stand high in the rankings, reflecting their recent opening to FDI and the potential for growth they offer. Finally, Singapore, which is a smaller economy compared to Australia, stands above Australia as a destination for FDI.

Figure 3.5

MAJOR FDI DESTINATION COUNTRIES, JANUARY TO JUNE 2004



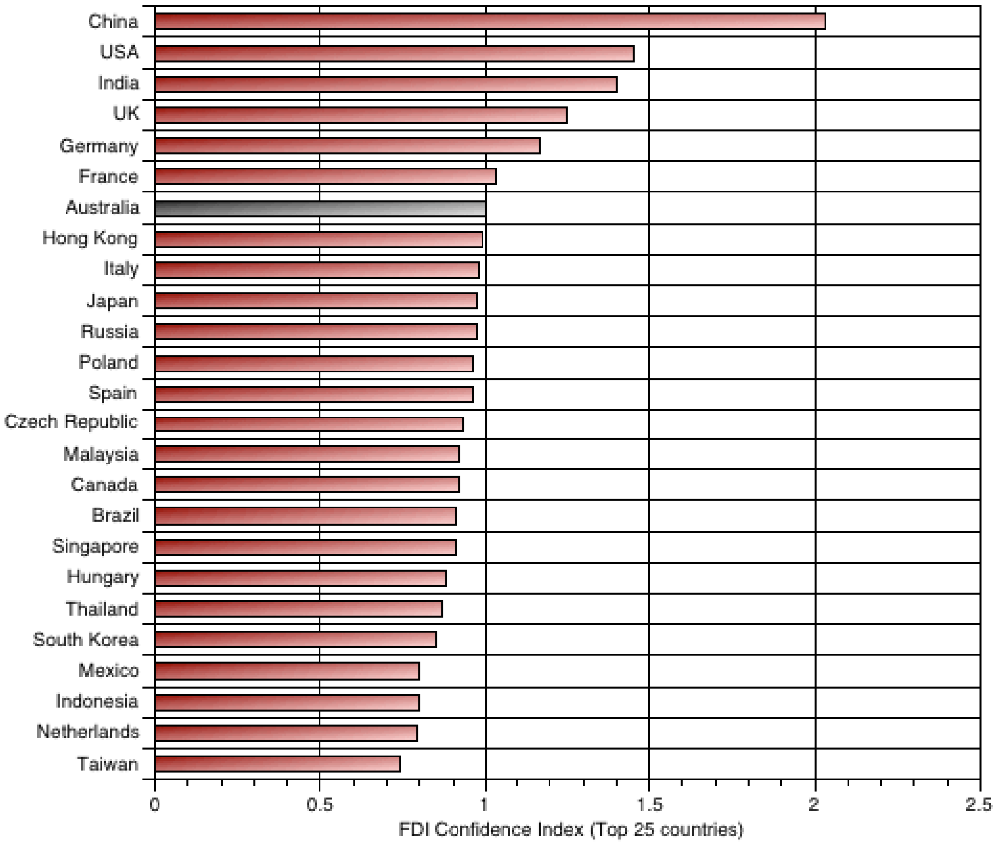
Source: IBM Business Consulting Services Plant Location International 2005, *Half Yearly Investment Review: First half year 2004*, Canberra.

Figure 3.5 hints at the competitive processes Australia faces to attract FDI in the current global economy. First, the focus of the investor on the emerging economies in Asia and Eastern Europe and second, closer to home, the competition from Singapore, especially for investment in industries such as ICT, biotechnology, pharmaceuticals and nanotechnology.

As shown in figure 3.6, Australia does have some very real competitive strengths. An important one is that Australia is well regarded by international investors. A survey of corporate investors found that Australia ranked seventh on an index of FDI Confidence, for October 2004. This was an improvement on Australia's previous ranking of nineteen in September 2003.[10] Factors attributed to the improvement in Australia's ranking include 'strong export led growth, the liberalisation of the media industry and tax reform'.[11] Additionally, since most of Australia's FDI originates in the USA, the announcement of the Free Trade Agreement (FTA) with the USA has improved corporate investor confidence in Australia as an investment location.

Figure 3.6

AT KEARNEY FDI CONFIDENCE INDEX, OCTOBER 2004



Source: AT Kearney 2004, *FDI Confidence Index*, October 2004, vol 7., p. 3.

In view of the reality that Singapore tends to be also focussed on the same sectors that are priorities for Invest Australia, and is a strong competitor to attract FDI in these areas, we have completed the chapter by assembling a presentation of some of the key things Singapore is doing to create an attractive environment for the development of a globally competitive biotechnology and pharmaceuticals industry. Attracting investment by leading global biotechnology and pharmaceutical companies is an important element of Singapore's broader development strategy.

[10] AT Kearney 2004, *FDI Confidence Index*, October 2004, vol 7., p. 3.

[11] AT Kearney 2004, *FDI Confidence Index*, October 2004, vol 7, p. 33.

Box 3.1

SINGAPORE'S BIOTECHNOLOGY INDUSTRY

Investment attraction philosophy

During the 1990s Singapore identified biomedicine as important for its future. Singapore's focus on life sciences includes medicine, biochemistry, biotechnology, human genetics, and pharmacology. The government's approach is to develop Singapore's R&D base in the life sciences for the study of diseases perceived as more prevalent in Asia, and for a range of related activities — clinical trials and drug development, services ranging from basic research to manufacturing.

To persuade world-class bioscience companies to locate R&D facilities in Singapore, the Government has established a fund equivalent to $A857 million to assist such companies in setting up their facilities, with a similar amount to assist smaller start-ups and to support joint ventures between local and foreign bioscience companies. Singapore currently invests over 2.5 per cent of GDP in biosciences.

Singapore is aware that for it to achieve the objective of building a world-class life sciences hub from its present small base, not only will foreign talent be required but measures must be taken to expand its base of local talent. To this end, the school curriculum has been developed to provide more depth in the study of biology and chemistry so that students will be able to develop a better understanding of these subjects and, for those interested, there will be scope to pursue further studies at tertiary level.

The Biopolis

The Biopolis symbolises the new direction of Singapore in encouraging technology-based sectors. Built at the cost of approximately $A425 million and launched in October 2003, the Biopolis is the centre of biomedical research in Singapore and is claimed to be the world's first integrated, purpose built biomedical research complex.

The Biopolis is supported by the Biomedical Research Council (BMRC), which has a five year budget of $A1.14 billion to develop a number of institutes in order to attract the best international talent to the Biopolis. The BMRC provides International Research Fellowships that support scientists from the United States and Europe to work at one of Singapore's five biomedical research institutes for 2-3 years.

Current achievements – Public research institutes

Some of the early occupants are public research institutes, including:

- Genome Institute of Singapore;
- Bioinformatics Institute;
- Bioprocessing Technology Institute;
- Institute of Bioengineering and Nanotechnology; and
- Institute of Molecular and Cell Biology (IMCB).

Current achievements – Leading scientists

Prominent scientists at the Biopolis include:

- Professor Sir David Lane, a world-renowned cancer scientist credited with the discovery of cancer gene p53;
- Dr Axel Ulrich, who leads a joint research program between A*STAR and the Max Planck Society of Germany;
- Professor Edison Liu, a leading breast cancer researcher in the United States who is now the executive director of the Genome Institute of Singapore; and
- Professor Yoshiaki Ito, who is an expert on RUNX genes, a tumour suppressor of gastric cancer.

These appointments demonstrate the ability of IMCB to attract world-class talent and the growing international importance of IMCB for its research in biological and biomedical sciences.

Current achievements – Private companies

Leading private sector firms which have established themselves in the Biopolis include:

- Novartis Institute for Tropical Diseases (NITD), established by the Swiss pharmaceutical parent company Novartis;
- Johns Hopkins University Medicine Division of Biomedical Science;
- Eli Lilly; and
- other biotechnology start-ups, including the US-based Vanda Pharmaceuticals and the UK-based Paradigm Therapeutics.

In addition to attracting new investment, the Biopolis is also generating interest in R&D from foreign pharmaceutical companies that currently only have manufacturing functions in Singapore. Companies considering basing their R&D activities in the Biopolis include:

- Schering-Plough;
- Pfizer;
- GlaxoSmithKline;
- Merck;
- Aventis;
- Wyeth-Amherst; and
- Baxter and BD Pharmaceuticals.

Source: The Allen Consulting Group 2005, *The Role of Science and Technology Parks in Asia's Economic Growth,* pp. 16-20.

An important message from the material presented in box 3.1 is the comprehensive nature of the approach Singapore is taking to the development of a globally competitive biotechnology cluster of research entities and companies. While investment incentives play a part, they are set within the context of a broad industry development strategy.[12]

[12] The Irish Government has adopted a similar approach to encourage the development of its ICT, biotechnology and pharmaceuticals industries.

Chapter 4

The role for government in investment attraction

As established in the previous chapter, Foreign Direct Investment has the potential to provide considerable benefits to an economy as a driver of economic growth through bringing about a positive transfer of technology, improving processes, contributing to skills development and providing access to global networks. While FDI typically involves a transaction between private sector parties, governments around the world are active in facilitating increased flows in FDI to their economies.

In the context of reviewing the role of Invest Australia and its operations, it is important to identify those aspects of FDI promotion and facilitation that require government involvement. Is there a clear rationale for government involvement in investment promotion and facilitation of FDI? If there is, what activities are appropriate for governments to conduct?

4.1 The rationale for government intervention

Economic theory suggests that overall economic welfare is maximised when the costs and benefits of actions undertaken by individual agencies in the economy are aligned with the 'social' costs and benefits of those actions.

There are cases where markets do not operate at the socially optimal level — when market failures exist which mean that the outcome achieved is less than is best for society as a whole. Box 4.1 provides a description of the four major types of market failure — public goods, externalities, information asymmetry and natural monopoly.

In the presence of market failures, there is a *prima facie* case for government intervention, though it is important to note that the mere presence of such a failure does not automatically justify government intervention. Market failures are an everyday event; buyers are rarely as informed as sellers, and most transactions have consequences for other individuals. For example, the Wallis Inquiry noted that:

> There is nothing unusual about asymmetry of information available to a supplier and a consumer. Many products or services are complex, difficult to compare, have considerable importance for the well-being of their customers or are provided over a period of time.[13]

Furthermore, the Productivity Commission has previously noted that:

> The need for government regulatory intervention does not immediately follow from the identification of information deficiencies: information deficiencies are pervasive yet most markets continue to function reasonably efficiently. … it is not generally efficient to eliminate all negative externalities or promote infinitely large quantities of positive externalities. In many cases, externalities do not create significant problems.[14]

Assessing the need for government involvement therefore requires identifying the potential harm that could result from a market failure, and the extent to which any government involvement would be effective in addressing the market failure.

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[13] Financial System Inquiry 1996, *Discussion Paper*, Canberra, p. 97.

[14] Productivity Commission 2000, *Inquiry Report: Review of Legislation Regulating the Architectural Profession*, AusInfo, Canberra, pp. 64 and 76.

In deciding whether or not to intervene in the case of a market failure, the Council of Australian Governments (CoAG) has publicly stated that government interventions in markets should generally be restricted to situations of market failure and that each regulatory regime should be targeted at the relevant market failure or failures.[15] In addition, it must be demonstrated that the benefits outweigh the costs, and that the objectives cannot be better met in an alternative way. Assessing the benefits and costs requires consideration of economic, social and environmental impacts, whether they are tangible or intangible.

Box 4.1

MARKET FAILURES THAT MAY WARRANT GOVERNMENT INTERVENTION

Market failures are typically considered under the following categories.

Public goods

Public goods are those goods where, once they are produced, parties cannot be excluded from enjoying the benefits of the good, and any number of persons may enjoy the benefits of the good without reducing the level of benefits for others (characteristics known as non-excludability and non-rivalry). As a result, consumers will be able to 'free ride' — receive benefits of the good without paying directly for it. In this case, there is little incentive for a private supplier of the good, and the good will be under-provided or not provided at all. Often, governments will step in to provide public goods, funded through taxation — for example, national defence.

Externalities

Externalities arise where an activity, service or good confers spillover benefits or imposes spillover costs on third parties. In the case of positive externalities, the originator does not take into account the additional benefits of the activity that third parties receive, and will produce the good at a lower than socially optimal level (for example, expenditure on Research and Development). In the case of negative externalities, the originator will not fully account for the costs of the activity that are borne by third parties, and will produce the good to a level that is more than is socially optimal (where the total social costs exceed the benefits) — for example, pollution.

Information asymmetry

Markets work best when all parties have sufficient information to make informed decisions. Information asymmetry in markets occurs when one party (usually the seller) holds more information than the other (usually the buyer). With information asymmetries, buyers do not have sufficient information to judge the quality of the goods offered to them, and cannot accurately ascertain the quality of the good until after purchase. In this case, buyers will offer a lower price for a good (taking into account the risks of inadvertently purchasing a low quality product), which drives higher quality products out of the market. This is known as a problem of the 'market for lemons', or adverse selection, where the lack of information in a market leads to a less than efficient outcome.

Natural monopoly

Natural monopolies arise where the costs of establishment, resources or infrastructure mean that setting up competition is socially wasteful — only one provider is able to operate in the market at a profitable level. While having one provider in a market may be the natural state according to market conditions, it may not be in the best interests of all parties in society (as the monopoly will be able to control output to extract monopoly rents). In this case, governments often intervene.

Source: The Allen Consulting Group

[15] Council of Australian Governments 1991, *Report of Task Force on Other Issues in the Reform of Government Trading Enterprises,* released as part of the first CoAG communique, Canberra.

4.2 Characteristics of FDI attraction which warrant government involvement

The preceding discussion provides an indication of those areas where there is a rationale for government involvement, assuming that governments are able to intervene in ways that target the identified market failures and the benefits of such action outweigh the costs.

In assessing the appropriateness of the role of Invest Australia and its operations, it is therefore necessary to identify the problem that is being addressed, and whether the problem requires government involvement — in other words, are there market failures in the supply of FDI to Australia, and is there a role for governments in attracting FDI?

The role of information in foreign investment decisions

Firms or individuals make new investments based on a judgement of the potential for a positive return. In making these decisions, investors rely on accurate, robust and up-to-date information. Potential investors will demand information on new investment opportunities — for example financial data on a firm that they are interested in investing in, or market data on a new market that they are interested in expanding into. If this information is costly or difficult to obtain — through the necessary time investment or fees to third parties — the investor may choose not to invest in a particular market or firm. Further, a less than desirable level of knowledge of the relevant elements of an investment will increase the perceived risk of the investment, therefore discounting the expected future gains. In this case there are information asymmetries present, where firms seeking new investment hold information on the merits of their particular firm or new project, but lack the appropriate means to provide this information to potential investors (and to assure investors that the information that they are providing is factual).

These information asymmetries are exacerbated when investment crosses national borders, as potential investors are also sensitive to characteristics of the particular country that they are considering investing into (and how these characteristics differ from their own country of origin). There are a number of factors which can impact on foreign investment decisions, including:

- *macroeconomic factors* — such as economic growth, the size of the domestic market and exchange rate levels and volatility;
- *microeconomic factors* — such as taxation and competition policy arrangements;
- *infrastructure* — such as transportation networks, services provision (such as financial services, insurance etc) and labour (including the availability of skilled workers); and
- *regulatory and legal structures* — including recognition of property rights and regulation of access to resources and infrastructure.

When combined, these factors represent the business environment that a firm assesses when deciding where to invest offshore. Given the importance of the business environment in foreign investment decisions, potential investors will value information that provides indicators of the business environment of a country.

Potential information barriers in foreign investment

There are two major difficulties in markets for foreign direct investment that represent information asymmetries:

- firstly, firms seeking new investors hold valuable information about the benefits of investing in their firm, but often have difficulty conveying this information to potential investors in a cost-effective way. This, in turn, makes it difficult for investors to differentiate between different investment options on the basis of quality (the expected return); and
- secondly, at a broader level, potential investors may not have sufficient information of the business or regulatory environment of a country — or they may have incorrect perceptions — to the extent that this poses a barrier to them investing in that country (and therefore, any firm or new project in that country, regardless of the merits of a particular investment proposal).

These barriers are, in effect, transaction costs to investment that, if sufficiently high, will mean that there will be a lower level of foreign investment than is optimal.

The first barrier is primarily a difficulty faced by domestic firms (or in some sectors, researchers) in getting information about their offering to investors offshore. These firms will promote their products or services to new investors to the extent that the cost of this promotion is not prohibitive (and is not higher than the expected benefits of this promotion). These costs are often exacerbated by difficulties in understanding the investment markets in other countries, including cultural factors.

The second barrier is more closely related to a public good. While information about the business environment in a particular country has been proven to be an important factor in foreign investment decisions, this information is likely to be under-provided by the private sector. This is because provision of country level information through promotion or marketing benefits all domestic industries, given the generic message involved. The non-excludability of this marketing means that it is unlikely that an individual firm would provide it (as it would not be able to charge other firms for the benefit that they receive from the information being provided). Further, while some firms (usually larger firms) do promote themselves on the basis of the economic climate and other business environment factors, this is typically done in a way that is closely linked to that firm's selling position or product — rather than directly communicating the advantages of locating in Australia. It is also likely in this case that the information provided by the firm will not carry the same weight or credibility as if it were provided by a government (for example, data on economic indicators).

Plenty of advertising is done internationally with regards holidaying but little is done with regards to investing.

- International firm

As a result, it is likely that without government involvement, this type of information will not be provided, or will not be consistent and robust enough to be trusted by new investors. In consultations for this evaluation, numerous government and industry stakeholders highlighted the general lack of knowledge of Australia as a good location in which to do business. This is particularly the case in those markets where tourism promotion provides a significantly different perception of Australia.

Spillover benefits of FDI

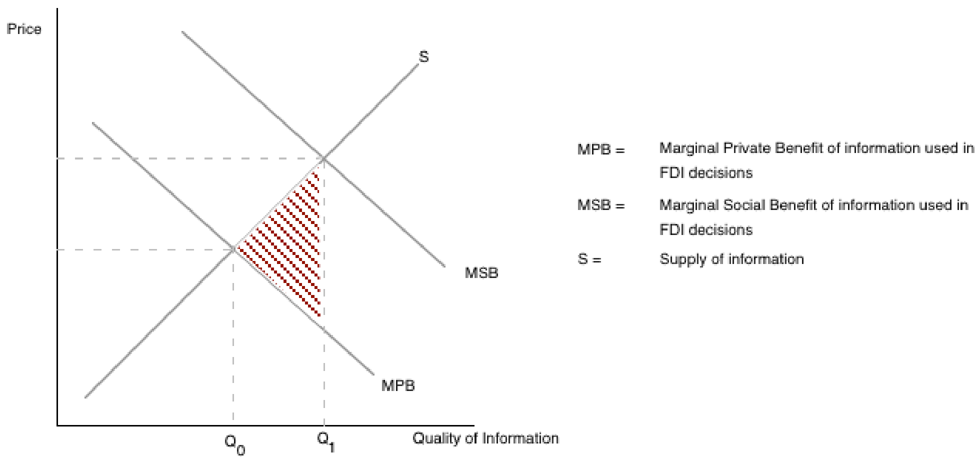
Information barriers for FDI do not, in isolation, warrant government involvement, except to the extent that FDI is an activity that governments recognise provides broader benefits to the community — positive spillovers. Spillovers are those benefits which are not directly taken into account by parties in a transaction — in this case firms assessing the transaction costs involved in attracting FDI do not take into account the broader, community wide benefits of this FDI. Further, even in a market where investors themselves are willing to pay for market information, these spillovers will not be taken into account, as the BIE noted:

> '… even when investors pay for information from the private sector, the price they are prepared to pay for that information is unlikely to take account of any positive spillovers to the Australian economy at large. These might include transfers of technology and know-how or access to overseas markets. Despite the existence of patents and licences, it is difficult to exclude other Australian firms from these benefits. Therefore, in a purely private market, at any given price for 'promotion' services, private supply and demand is likely to result in too little FDI from Australia's perspective'.[16]

How positive spillovers are not explicitly taken into account in private investment decisions is illustrated in figure 4.1. In this figure, the total information demand by potential investors is shown as Q_0, where the cost of sourcing this information is equal to the expected benefit of the information (the extent to which the information leads the investor to a better investment that would have otherwise occurred). In the presence of positive spillovers from FDI, the actual benefit of this information to broad society is shown by the Marginal Social Benefit (MSB) curve. It is therefore evident that private decisions lead to a less than optimal demand (and therefore supply) of information for FDI decisions, given the positive spillover associated with FDI. The shaded area in the figure represents the cost to society when Q_0, rather than Q_1 quantity of information is demanded.

Figure 4.1

SPILLOVERS IN FDI ATTRACTION



Source: The Allen Consulting Group

Spillover benefits can occur with FDI when the foreign investment brings with it additional benefits that are consumed by third parties. In the case of FDI, these can include:

[16] Bureau of Industry Economics, 1996, *Evaluation of the Investment Promotion and Facilitation Program*, AusInfo, Canberra. pp. 41-2.

- technology transferred to the host country which then, either through the movement of employees or other methods including relationships with local suppliers, becomes available to locally owned companies;
- gains to the economy through increasing the skills of the investing company's workforce which increases the skill levels across the workforce and boosts productivity;
- where the investing company carries out research and development which leads to positive spillovers to other entities; and
- providing access for locally owned companies to global networks associated with the investing company.

The presence of these and other positive spillovers associated with FDI strongly suggests that the social returns from productive FDI exceed the private returns, with benefits to the economy as a whole.

4.3 Appropriate activities for government in FDI attraction

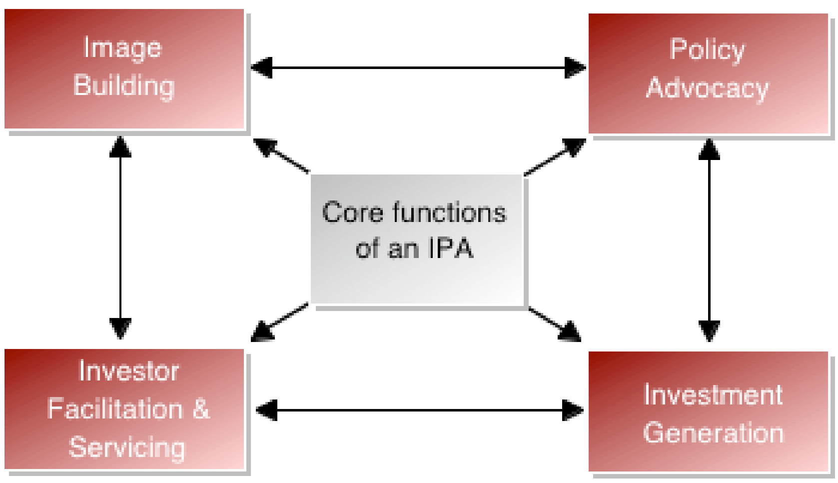
The preceding discussion highlights that, while FDI is beneficial for an economy in various ways, there are barriers to the ability of firms to attract FDI, leading to a less than optimal level of FDI inflow. On the basis of these barriers, what are the most appropriate roles for governments to play in attracting greater FDI?

Figure 4.2 provides a framework for thinking about the role of an IPA. The framework breaks down the roles of the IPA into:

- image building;
- investor facilitation and investor servicing;
- investment generation; and
- policy advocacy.

Figure 4.2

KEY FUNCTIONS OF AN INVESTMENT PROMOTION AGENCY



Source: L.T. Wills and A. G. Wint 2000, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment,* Foreign Investment Advisory Service, Occasional Paper 13, Washington.

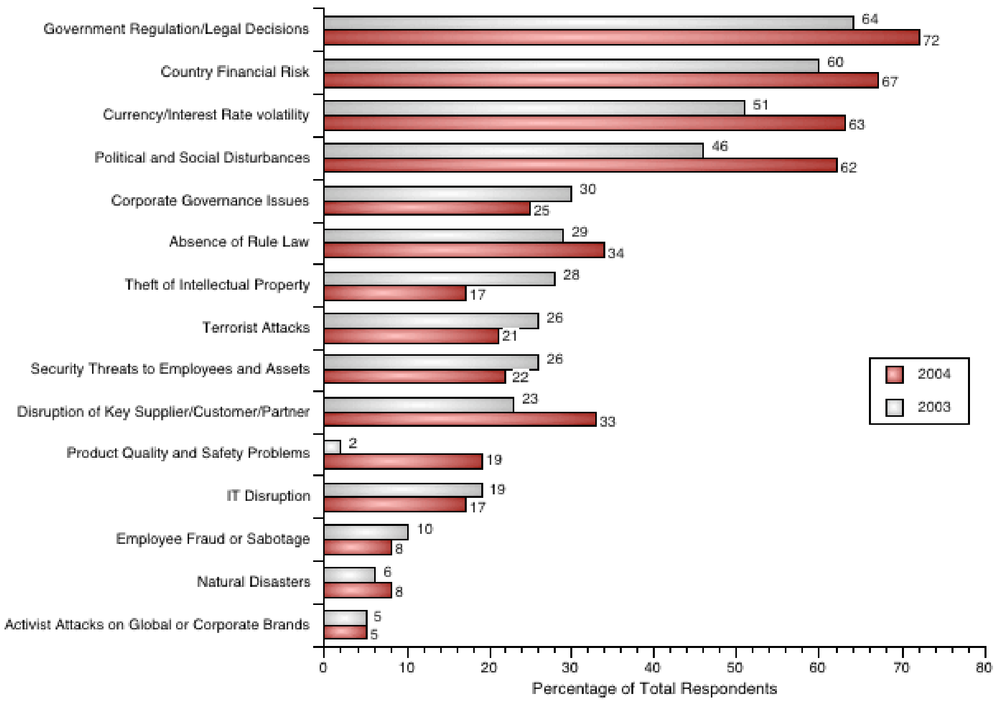
Policy advocacy — establishing the business environment

It is widely supported in the literature that the amount of FDI inflow is strongly impacted by the quality of the business environment. In its annual study on foreign investor confidence, The Global Business Policy Council reports on those factors that foreign investors take into account when deciding where to invest. As shown in figure 4.3, foreign investors are acutely aware of the business environment of various countries around the world.

The results in figure 4.3 show that investors are primarily concerned with factors such as regulatory and legal decisions, country financial risk, currency and interest rate volatility and political and social disturbances — all factors where governments have a strong influence. This emphasises that, while FDI (like all forms of private investment) is made on the basis of the quality of the business opportunity and the potential return, there are considerable factors that are important in foreign investment decisions on which governments have a significant impact.

Figure 4.3

THE MOST CRITICAL RISKS TO FIRM OPERATIONS, 2003 AND 2004



Source: AT Kearney 2004, *FDI Confidence Index*, October 2004, vol 7.

Governments, therefore, in the first instance, have a role in establishing (through various regulatory and economic policy tools) a sound economic environment for foreign investment, as reported by the OECD (box 4.2).

Box 4.2

BUSINESS ENVIRONMENT FACTORS IMPACTING FDI FLOWS

The aim of policies for attracting FDI must necessarily be to provide investors with an environment in which they can conduct their business profitably and without incurring unnecessary risk. Experience shows that some of the most important factors considered by investors as they decide on investment location are:

- A predictable and non-discriminatory regulatory environment and an absence of undue administrative impediments to business more generally.
- A stable macroeconomic environment, including access to engaging in international trade.
- Sufficient and accessible resources, including the presence of relevant infrastructure and human capital.

The conditions sought by foreign enterprises are largely equivalent to those that constitute a healthy business environment more generally. However, internationally mobile investors may be more rapidly responsive to changes in business conditions. The most effective action by host country authorities to meet investors' expectations is:

- Safeguarding public sector transparency, including an impartial system of courts and law enforcement.
- Ensuring that rules and their implementation rest on the principle of non-discrimination between foreign and domestic enterprises and are in accordance with international law.
- Providing the right of free transfers related to an investment and protecting against arbitrary expropriation.
- Putting in place adequate frameworks for a healthy competitive environment in the domestic business sector.
- Removing obstacles to international trade.
- Redress those aspects of the tax system that constitute barriers to FDI.
- Ensuring that public spending is adequate and relevant.

Source: OECD (Organisation for Economic Cooperation and Development) 2003, *Checklist for Foreign Direct Investment Incentives Policies*, **www.oecd.org/dataoecd/45/21/2506900.pdf**, Accessed 3 June 2005, p.7.

In this context, government agencies tasked with increasing level of FDI could work as an interface between business and government, identifying areas of the business environment that are potential barriers to FDI. This role is what Wills and Wint identified as 'policy advocacy' — advocating improvements in the foreign investment climate.[17] This role includes advocating reductions in regulatory red tape (but does not include providing special conditions for individual investments).

A recent econometric analysis of investment attraction in 58 countries found that the policy advocacy role was the most influential in relation to impacting on FDI levels (compared with 'imaging building' and 'investor facilitation').[18] The study also found that the effectiveness of promotion and facilitation efforts is positively correlated with the quality of the investment climate. Therefore, policy advocacy is seen as an important initial role, setting the appropriate climate for subsequent promotion and facilitation efforts (which work on the basis of a sound economic environment for foreign investment).

Axiss Australia has great connections with government for influencing policy to make Australia more attractive as an import/export centre. I think Axiss has helped the government appreciate the issues related to attracting and retaining foreign companies

Financial services firm

17 L.T. Wills and A. G. Wint 2000, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment,* Foreign Investment Advisory Service, Occasional Paper 13, Washington.

18 J. Morisset 2003, *Does a Country Need a Promotion Agency to Attract Foreign Direct Investment?: a small analytical model applied to 58 countries*, The World Bank Foreign Investment Advisory Service, Policy Research Working Paper 3028.

This policy advocacy function is not currently a major function of Invest Australia, though the organisation does work with firms to progress major projects through regulatory and administrative process through the Major Project Facilitation program and the Supported Skills Program. Axiss Australia has, however, worked closely with agencies in the Australian Government on addressing current regulatory barriers to investment in the financial services industry.

Imaging building — promotion and marketing

Promotion and marketing activities work to support FDI decisions through providing information for potential investors. Given the identified information asymmetries in foreign investment decisions – and the public good nature of country level promotion – there is a clear role for governments in promotion and marketing (particularly of 'country level' attributes). This role is known in the literature as 'image building' — to improve a country's image within the investment community as a favourable location for investment.[19] These activities include advertising, participating in events and conducting information sessions.

Marketing the benefits of investing in a particular country can provide an important first impression on investors who may not have previously considered the country as a potential investment location, or may have had a negative impression based on incorrect or incomplete information. These information tools can, therefore, set a foundation of knowledge which may lead an investor to seek additional information on their own accord, or support a subsequent approach to an investor by staff of the Investment Promotion Agency (IPA). Marketing and promotion is therefore a necessary activity to support facilitation or lead generation by IPAs.[20]

Invest Australia has become considerably more proactive with promotion and marketing since *Global Returns*. Key initiatives in this area include the launch of the three-year strategic marketing plan and the national investment brand, 'The Future is Here — Technology Australia'. Advertising initiatives include series in the Economist magazine and Forbes. The new Invest Australia website includes the promotion of '10 good reasons to invest in Australia'. These initiatives seek to provide generic information on the benefits of investing in Australia — essentially those 'country level' attributes identified earlier.

Investment generation and facilitation

Investment generation and facilitation (also known as attraction and facilitation) includes a range of activities, primarily involving attracting a new investment lead and managing the lead to the point where a new investment is made. New investment prospects, or 'leads' as they are commonly known, may be the result of a firm or individual approaching the IPA (most likely through one of its overseas posts) for information on the country and on prospective investments. Leads are also generated directly through the IPA approaching a firm or individual (perhaps on the basis of local knowledge on the firm, or through an introduction at an industry event).

Once a lead is generated, staff of the IPA can provide a number of services, including:

[19] L.T. Wills and A. G. Wint 2000, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment,* Foreign Investment Advisory Service, Occasional Paper 13, Washington. p 21.

[20] Ibid., p.21.

- providing information on the business environment and on the markets and sectors relevant for the particular firm;
- acting as an intermediary between the firm and government agencies to clarify regulatory or administrative issues;
- arranging site visits for the investor; and
- introducing the investor to potential business partners.

These activities represent support for the investor from the initial enquiry stage of the potential investment, through to arrangements for the new investment to go ahead.

Are these facilitation services best provided by governments? There is demand by investors for facilitation of new investments, and to some extent private brokers or intermediaries meet this demand. There are, however, aspects of facilitation where governments hold an advantage. Governments are often in the best position to provide information about regulatory processes or administrative hurdles for foreign investors. The value of government contacts in facilitation of investment projects is considerable, and is evidenced by the services of Invest Australia staff in advising foreign firms on processes such as the Foreign Investment Review Board. Governments also provide credibility and integrity to information and facilitation which increases the effectiveness of the message, and instils trust.[21] This advantage was supported by several stakeholders in consultations for this review.

Government agencies are generally looked upon as more credible and less likely to use figures that are inaccurate or self-serving. They are also in a position to be able to quickly and easily provide information sought by an organisation looking at Australia as a possible base or market into which they can expand.

Industry association

Invest Australia conducts investment attraction and facilitation services through a network of offshore staff, supported by industry teams in Australia. Offshore staff develop leads through targeting potential investors (such as through industry events), and through managing direct enquiries. Facilitation services are conducted by both onshore and offshore staff, often in partnership with State and Territory investment promotion agencies.

The role of incentives

Internationally, many IPAs offer financial incentives for new foreign investors. These incentives include:

- tax concessions;
- government grants for establishing new regional factories or headquarters;
- subsidised rent on premises (such as through government-owned technology parks);
- subsidised land;
- infrastructure support or subsidies;
- low interest loans and loan guarantees; and
- wage subsidies.

[21] Bureau of Industry Economics, 1996, *Evaluation of the Investment Promotion and Facilitation Program*, AusInfo, Canberra.

Typically, such incentives are provided on a discretionary basis even where clear guidance is provided on the nature of the incentives available – actual provisions generally depend on the particular foreign investment being consistent with the host government's development priorities. Priority areas are generally supported by a range of interlinking actions designed to build competitive clusters – incentives are one element of a broader set of actions.

In a competitive environment for the global stock of FDI, as discussed in chapter 3, it is possible for firms seeking to expand offshore to 'incentive shop' between countries and regions to find the most lucrative offer. This trend was recognised by several stakeholders in consultations for this review, noting that Australia's policy of not providing financial incentives at the Commonwealth level excluded it from attracting major facilities in particular sectors (such as integrated circuit manufacturing).

While it may appear that providing financial incentives is necessary to remain competitive in the market for FDI, it is important to note the potential costs of such a policy. Offering financial incentives is not necessary to address the information barriers for FDI (which can be addressed through promotion and facilitation). Further, competing for new investments from large, relatively 'footloose' firms can be a perpetuating trend, whereby firms demand further incentives to stay, and are able to play off different countries or regions against each other — essentially a 'race to the bottom' for different regions. Providing increasing levels of incentives would erode the gains from the FDI over time.

There is strong evidence to suggest that, on the whole, firms value good economic conditions and the general business environment more than one-off financial incentives. Governments should therefore focus their efforts in this area, which provides a basis for promotion and facilitation activities. As noted by the OECD:

> The usage of tax incentives, financial subsidies and regulatory exemptions directed at attracting foreign investors is no substitute for pursuing the appropriate general policy measures.[22]

And also in the Blackburne review:

> Incentives will normally be accepted by an investor, but are frequently ranked well below other factors affecting the investor's decision to invest. They are much less important than a sound macroeconomic and microeconomic environment, political stability, stable economic and social infrastructure, a reliable and well-educated work force and a well-developed financial sector.[23]

4.4 Key findings

- There is a clear role for governments to assist in attracting FDI through providing information and facilitation services to potential investors.
- Governments need to provide information on 'country level' attributes, such as economic indicators, which potential investors value, but that is unlikely to be provided by the private sector.
- Government promotion and marketing is also likely to benefit domestic firms that find the costs of finding foreign investors prohibitive.
- Given the importance of the business environment in foreign investment decisions, there are potential gains in government investment promotion agencies working with other government agencies to address regulatory or administrative barriers to FDI.

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[22] OECD (Organisation for Economic Cooperation and Development 2003, *Checklist for Foreign Direct Investment Incentives Policies*, **www.oecd.org/dataoecd/45/21/2506900.pdf**, Accessed 3 June 2005, p.7.

[23] I. Blackburne, 2001, *Winning Investment: strategy, people and partnerships, A review of the Commonwealth's investment promotion and attraction efforts*, A report to the Prime Minister, p12.

- The current role of Invest Australia is appropriate given the identified information asymmetries for FDI. The recent marketing and branding strategies are an improved approach, as they are the appropriate tools in addressing the information barrier to FDI for Australia.

Chapter 5

Coordination between government agencies

The previous chapter identified the main aspects of FDI attraction where there is a role for governments. In the Australian context identifying a role for government to address a specific problem necessarily requires assessing the respective responsibilities of Commonwealth, State and Territory government agencies.

This chapter assesses the current role of Invest Australia in relation to the activities of State and Territory agencies involved in investment promotion, as well as relevant Commonwealth agencies (such as Austrade and DFAT), and the extent to which there is effective coordination of government efforts in investment promotion, attraction and facilitation. It is important to note the impact of this coordination on related issues of the effectiveness of Invest Australia's activities, which links with the discussion in the subsequent chapters on effectiveness.

5.1 Coordination with State and Territory agencies

Investment promotion and facilitation activities are undertaken by all States and Territories as well as the Commonwealth government (through Invest Australia). Facilitation of foreign investment is an area where State and Territory governments have a longer history of involvement than the Commonwealth Government. Prior to the establishment of Invest Australia (following the Mortimer review of 1997) there was no dedicated Commonwealth agency for foreign investment attraction. In contrast, most State and Territory governments have had overseas offices and agencies engaged in investment promotion for a considerably longer period.

After the establishment of Invest Australia, the issue of the role of the Commonwealth agency in comparison to that of State and Territory agencies became increasingly important. The lack of national coordination of investment attraction efforts was a major criticism to come out of the Blackburne review. The review noted that:

> Australian governments have used a range of promotion and attraction activities to overcome the market failure associated with inadequate information. However, these efforts have been hampered by the lack of a national strategy to pursue ODI, the involvement of a multiplicity of Commonwealth and state and territory agencies whose efforts up until now have been largely uncoordinated, some duplication of effort, and the failure to establish an Australian investment brand in offshore markets.[24]

The Blackburne review recommended that a national strategic framework for investment promotion and attraction be developed. In light of the findings of the Blackburne review, the Australian Government launched the National Investment Framework – *Global Returns* – that set out as a key initiative of Invest Australia to 'assume a leadership role in the implementation of the national investment framework'.[25] As part of this role, Invest Australia was tasked with the responsibility of:

[24] I. Blackburne, 2001, *Winning Investment: strategy, people and partnerships, A review of the Commonwealth's investment promotion and attraction efforts*, A report to the Prime Minister, p iii.

[25] *Global Returns: The National Strategic Framework for Attracting Foreign Direct Investment,* accessed from http://www.investaustralia.gov.au.

- chairing a National Investment Framework Inter-Departmental Committee (NIF IDC) to assist in the development of whole-of-government approach to investment attraction;
- establishing a National Investment Advisory Board (NIAB) to coordinate Commonwealth and State and Territory investment attraction activities;[26]
- establishing a National Marketing Group to develop and implement a rolling three year marketing plan; and
- establishing a National Investment Research Group.

Current protocols and systems for managing investment leads

Invest Australia works with State and Territory investment promotion agencies through the established protocols under the *Foreign Investment Lead Procedures for the Commonwealth, States and Territories.* While there are other, more informal interactions between agencies, the *Procedures* provide a framework for sharing of information that is equitable for all agencies. These *Procedures* are outlined below.

Foreign Investment Lead Summaries

Invest Australia circulates a Foreign Investment Lead Summary (FILS) to States and Territories to provide early notice of a possible investment project at a point where the lead is seen to have potential but has not yet been fully qualified. This enables States and Territories to have advance notice of possible projects before more detailed and qualified information is available, and an opportunity to provide information to assist the overseas network of Invest Australia to market Australia as a potential investment location. Box 5.1 outlines the main stages in the FILS process.

Box 5.1

PROCESS FOR PROGRESSING A FOREIGN INVESTMENT LEAD SUMMARY

1. The overseas officer will generate a FIL, which will be emailed to the relevant contact within the appropriate industry team in Australia. On occasion the name of the potential investor may be withheld for confidentiality reasons.

2. The industry team will send FILs to all States and Territories, unless the client has explicitly requested that circulation be limited to specific States/Territories only.

3. States and Territories are asked to reply within three days advising if they are interested in responding to the FIL, and are asked where relevant, to provide name and contact details of the relevant officer who will be handling the FIL.

4. A timeframe for providing the information sought in the FIL will be provided according to the needs of the overseas action officer for follow-up with the client. This will usually be a minimum of 5 days.

5. Those States & Territories responding to a FIL are asked to provide brief responses (indicative length of 3-5 pages) based on readily available information.

7. Those States and Territories which elect not to respond to the FIL will not be included in any follow-up discussions with the client, nor with subsequent circulation of FIL/FIB details.

8. The relevant Invest Australia officer will coordinate responses from States and forward to the initiating overseas officer for discussion with the client.

Source: Foreign Investment Lead procedures for the Commonwealth, States and Territories, unpublished, provided by Invest Australia

[26] *Global Returns: The National Strategic Framework for Attracting Foreign Direct Investment,* accessed from http://www.investaustralia.gov.au.

Foreign Investment Briefs

When discussion with a client leads to serious interest in investing in Australia — including the completion of the FILS stage where interested States and Territories have been provided an opportunity to supply information to the potential investor — a Foreign Investment Brief (FIB) may be prepared by the offshore Invest Australia staff. Box 5.2 details the process for progressing FIBs. While this is the usual protocol, a FIL does not have to be undertaken for a FIB to occur.

Box 5.2

PROCESS FOR PROGRESSING A FOREIGN INVESTMENT BRIEF

1. The FIB prepared by the overseas officer will provide comprehensive information about the potential project and products or services, possible Australian involvement and, generally, the potential investing company. On occasion the name of the potential investor may be withheld for confidentiality reasons.

2. The FIB will also provide details of further action or information required by the potential investor. This may include a request for information about possible Australian strategic or joint venture partners.

3. The FIB will be coordinated on behalf of the initiating officer by the relevant industry team in Australia. Where a FIL has previously been distributed on the potential project, the FIB will be sent to all States and Territories which responded to the original FIL.

4. Where relevant, contact with Australian companies or other external contacts should be made at this stage.

5. Those States & Territories that wish to be considered for the potential project are asked to provide highly professional, electronic presentations in response to FIBs, including general information on the advantages of their regions for inward investment. It is important that these presentations answer all the questions posed in the FIB.

6. As with the FIL co-ordination process, States & Territories will be given a timeframe in which to respond to FIBs. This will usually be a minimum of 10 days. All State & Territory FIB responses will be forwarded by the coordinating Invest Australia officer to the overseas initiating officer for presentation to the client.

Source: Foreign Investment Lead procedures for the Commonwealth, States and Territories, unpublished, provided by Invest Australia

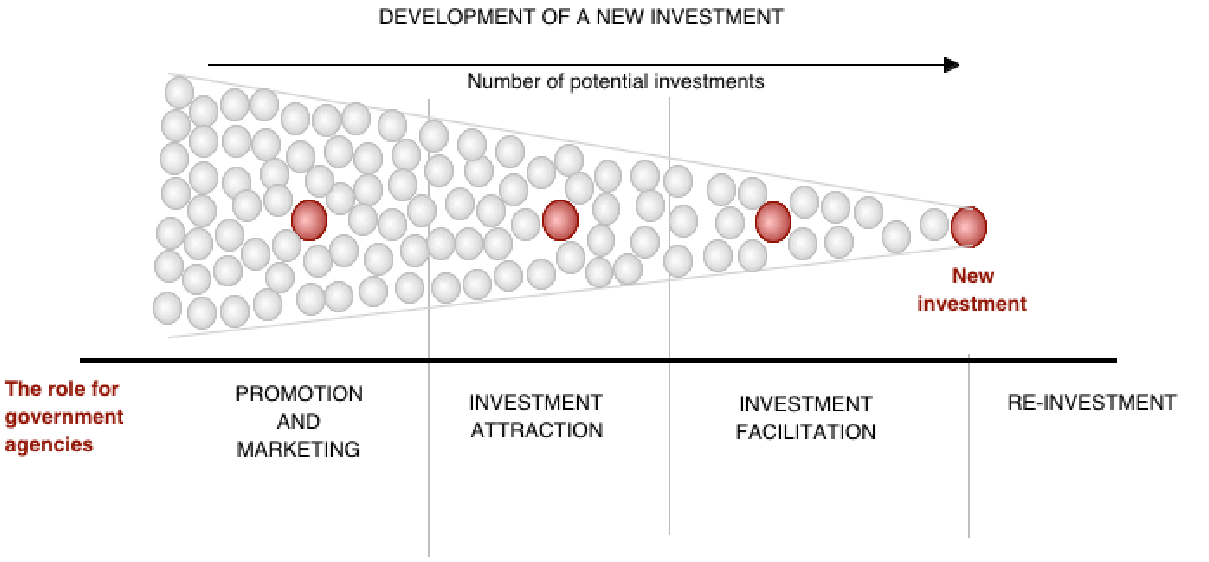
The protocols for FILs and FIBs also establish that responsibility for client management and coordination of competing interests rest with the initiating officer who will act as the project manager until responsibility is relinquished.

Stages of government involvement in a new foreign investment

As discussed in chapter 4, government agencies can play a valuable role at various points along the development of a new investment — from initial investor inquiry to successful new investment. Given the involvement of both the Commonwealth government (primarily through Invest Australia) and State and Territory governments in foreign investment attraction, it is necessary to consider the appropriate role, and comparative advantages, of these different agencies. Understanding the most effective roles for different agencies is an important initial step in developing better coordination between agencies (assuming, as in this case, that there is a clear role for different agencies in the process).

In making this assessment, it is useful to think of the process of attracting a new foreign investment to Australia as a series of stages, as illustrated in figure 5.1. This figure illustrates how a new lead can develop into a new investment, and the different roles of a government investment promotion agency along this process.

Figure 5.1
STAGES IN THE DEVELOPMENT OF A LEAD TO A NEW INVESTMENT



Source: The Allen Consulting Group

It is useful to think of the government's role in this process as involving four elements (consistent with the roles set out in chapter 4):

- *Promotion* — the most indirect role for governments, promotion and marketing is the necessary first stage of attracting foreign investment, which can result in new leads.
- *Attraction* — the generation of leads through directly targeting new investors (typically by offshore staff).
- *Facilitation* — the servicing of new leads through to a new investment (from providing information, setting up site visits and introductions to potential business partners).
- *Re-investment* — the following-up with foreign firms already in Australia with the aim of encouraging further investment by the firm.

It is evident that these roles are different in their directness and their resourcing requirements. Promotion activities require large budgets to be effective, and attraction and facilitation activities require staff in offshore locations to have personal contact with potential investors. Conversely, some re-investment can be serviced with onshore resources to assist foreign firms already established in Australia. For one agency to fulfil all of these roles is therefore no small task, suggesting potential gains for Commonwealth, State and Territory agencies in sharing responsibility for this process, to the extent that effective networks and coordination can be established.

Stakeholder views on coordination

In consultations for this evaluation, government and industry stakeholders were asked to comment on the current processes for interaction and coordination between Invest Australia and their State and Territory counterparts.

State and Territory agency views

Consultations with representatives from State and Territory investment promotion agencies found a consistent view that the overall communication and coordination between themselves and Invest Australia had improved since the implementation of new initiatives following *Global Returns*, including the NIAB, which received favourable comments from most States and Territories. In particular, several smaller jurisdictions noted the support and assistance of Invest Australia executives, and the access that they have to Invest Australia staff overseas. This progress has also come at a time when States and Territories themselves are working in a less competitive and more 'collegiate' environment for foreign investment attraction. There remain, however, areas for improvement.

All States and Territories recognised the need for the protocols under the FILS and FIBs process that, while cumbersome at times, do establish a level playing field for all jurisdictions in getting access to Invest Australia leads. That said, several jurisdictions hold concerns over how the process of lead coordination is working in practice — in particular the timing of making States and Territories aware of new leads and the extent to which Invest Australia staff continue to develop the lead (or, as some commented, 'own' the lead). Some jurisdictions commented on what they considered was 'over-handling' of leads by Invest Australia staff beyond the point where Invest Australia is in the best position to be facilitating.

These comments highlight the need for a clear understanding of the respective roles of different levels of government. The strong message from State and Territory jurisdictions was that Invest Australia is best positioned in the following areas.

- *Large scale marketing and promotion of the Australian 'brand'*. A majority of States and Territories recognise Invest Australia's comparative advantages in establishing a national brand and marketing the benefits of investing in Australia. There has, however, been mixed up-take of the national brand and marketing materials by State and Territory agencies. Some agencies considered the marketing approach too generic, particularly the use of the *Technology Australia* terminology. There was also a concern that there were too many 'sub-brands' for the overall brand to have an impact.

- *Offshore investment attraction and facilitation.* States and Territories value highly the network of Invest Australia offshore staff, particularly those smaller jurisdictions with little or no offshore presence. There is strong support from State and Territories for an increased number of Invest Australia offshore staff, and for stronger linkages between Invest Australia and State representatives offshore to improve the overall effectiveness of the entire offshore network.

The majority of States and Territories believe that they are equally, or better positioned than Invest Australia to facilitate potential investments — particularly when they progress to that stage of site visits and/or working with firms within Australia on partnerships or joint ventures. This reflects views that States and Territories consider that they have better 'on the ground' regional knowledge.

An additional area of concern for States and Territories is the perceived movement by Invest Australia to take a larger role in re-investment services. Re-investment can range from local decisions to extend existing activities through to major expansions into new areas. Some new projects require decisions to be taken offshore at company headquarters, sometimes on the basis of a case made by the Australian offshoot.

In consultations for this evaluation, States and Territories noted the development of a re-investment team in Invest Australia as a signal of greater interest by Invest Australia in re-investment. Several jurisdictions noted their concerns on this issue, seeing potential for duplication of the work that they are already conducting — although it was acknowledged that there is considerable variation between States and Territories on the extent to which re-investment services are undertaken. At the time of consultations for this evaluation, protocols for re-investment activities of Invest Australia and the States and Territories were being developed, though were not made available for this evaluation.

Invest Australia views

The Invest Australia executive expressed predominantly positive views on the current relationships that they have with State and Territory agencies. In particular, several noted the benefit of the NIAB as a forum for communication between agencies.

The areas noted where strong progress has been made include greater coordination at international events, such as BIO, where all Australia agencies are now located in the same exhibition area and promoted under the Australian 'brand'. This level of cooperation is considered to be a signal of strong progress in cooperation between jurisdictions (as much due to the efforts of States and Territories as Invest Australia).

Executive staff noted that there are still some operational issues with the FILS and FIB system, including the difficulties faced by the smaller States in responding to the large number of leads that are fed through the system. They also recognised the trade-off between providing the lead when it is still current (before it goes 'cold') and ensuring that the potential investor is a credible firm with serious intentions (effectively conducting a 'due diligence' test on leads). Some Invest Australia staff noted that State and Territories can be risk averse with some types of leads, particularly those coming out of China, and therefore there is greater demand for assurances from Invest Australia on the validity of the prospective investment.

The executive considers that Invest Australia's role in re-investment provides a means for Invest Australia to maintain those relationships established through facilitating the initial investment to Australia. Given that existing relationship, the follow-up through re-investment services is considered to be a natural progression of the relationship (the importance of relationships being a consistent theme throughout consultations for this evaluation). Invest Australia also considers that they can add value through re-investment services, where a firm may wish to invest in a different State or Territory from their initial investment, and are therefore unlikely to seek help from the investment promotion agency in that State or Territory. Invest Australia also noted their role in assisting Australian-based offices of foreign firms to develop a case to their corporate headquarters for further investment in Australia.

Industry associations and investor views

Industry associations and individual firms are typically not privy to the various administrative or bureaucratic processes between government agencies. They are, however, often keenly aware of the potential difficulties in dealing with multiple levels of governments. Given the role of both Commonwealth and State and Territory government agencies in investment attraction and facilitation, it is important to assess whether such arrangements are working well in practice for business.

Industry associations consulted for this evaluation had a different perspective on coordination from individual firms, as they consider the adequacy of coordination from a broader perspective, rather than its impact on an individual investment. The comments received from associations were mixed, with most acknowledging some improvement in coordination, but also noting several areas where further improvements can be made.

There is no question that the coordination has improved since 2002 and the Industry remains hopeful that this can continue to improve and be built on.

Industry association

Some associations acknowledged the current processes which allow coordination of information being provided to a potential investor (through the FILS process). They did note, however, that there were other examples where agencies would work in isolation of each other, leading to some confusing signals to overseas investors (the example being a lack of coordination on visits for overseas delegations). There were also concerns about a perceived lack of the use of the national brand, with States and Territories continuing to promote themselves separately from Invest Australia promotion. The majority of associations who provided views to this evaluation agreed that national coordination was vital in attracting FDI to Australia.

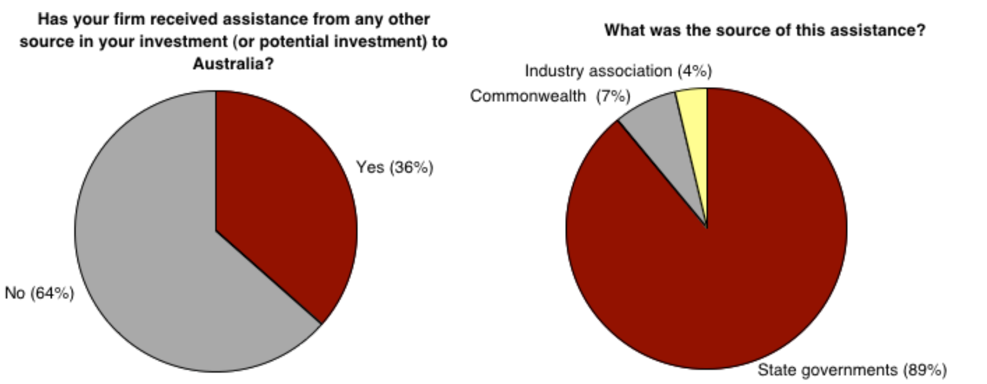
State and Federal governments often take separate overseas delegations and promote their states separately creating some confusion in overseas investors. This is an area where uniting the industry under a single banner would be very beneficial.

Industry association

In the survey of recent and potential investments to Australia, firms were asked whether they had received support from more than one government agency for their investment to Australia, and if so, how well this support was coordinated. As shown in figure 5.2, just over a third of responding firms reported receiving support from multiple government agencies. Of these, the vast majority received support from Invest Australia and a State or Territory agency.

Figure 5.2

OTHER SOURCES OF SUPPORT FOR NEW INVESTMENT

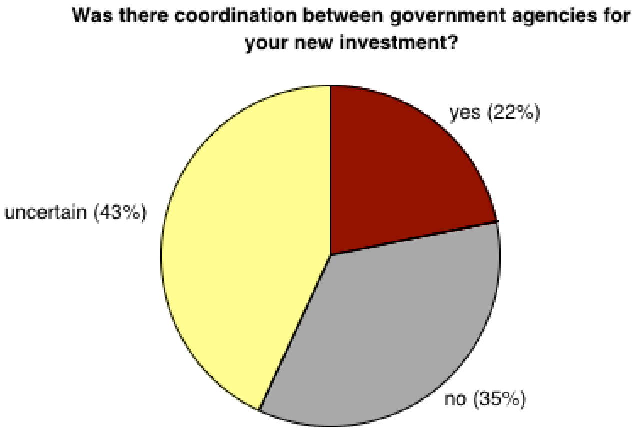


Source: The Allen Consulting Group Invest Australia evaluation business survey

When asked about coordination of support, a relatively small proportion (22 per cent) reported that there was, from their perspective, coordination between agencies — though 43 per cent were uncertain of whether there was coordination or not, suggesting that firms may not have a full understanding of the communication between agencies (figure 5.3).

Figure 5.3

COORDINATION OF GOVERNMENT SUPPORT

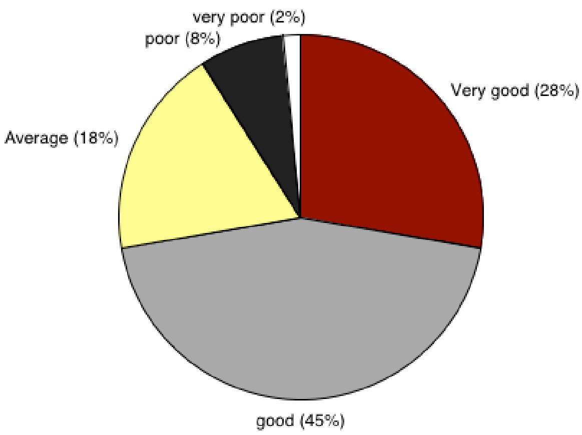


Source: The Allen Consulting Group Invest Australia evaluation business survey

Firms were further asked to rate the overall coordination of government agencies in Australia in the area of investment attraction. As shown in figure 5.4, a majority of firms agreed that coordination was either ‘very good’ (28 per cent) or ‘good’ (45 per cent). This indicates that, while the level of coordination between government agencies is not obvious to a large number of firms, this is an area where most firms have not experienced any major difficulties (to the extent that they rated the overall coordination of governments in this area positively).

Figure 5.4

RATING OF COORDINATION BETWEEN GOVERNMENT AGENCIES



Source: The Allen Consulting Group Invest Australia evaluation business survey

We need more coordination between government agencies - challenge is managing ever changing regulatory environment; project proponent ends up doing this itself.

Potential investor

While the overall rating from surveyed firms was positive, several firms did provide further views on coordination. In particular, a number of firms noted the need for greater government coordination in dealing with regulatory issues, as these continue to pose a barrier to new investment.

Overall assessment of Invest Australia and State and Territory coordination

In considering the current relationships that Invest Australia has with its State and Territory counterparts, and coordination between agencies, the overall impression is of an improved situation since the implementation of *Global Returns*.

There is strong support at all levels of government for the role of Invest Australia as the lead agency in marketing and promotion at a national level. In order to get sufficient buy-in from the States and Territories in relation to the National Investment Brand, there needs to be further communication on the use and value of sub-brands, which is an area where some States and Territories have concerns.

The offshore network of Invest Australia is considered an asset for States and Territories, and is an area where relationships could be strengthened further. In relation to the role of Invest Australia in facilitation, there remain concerns over the process of passing on leads to jurisdictions. This is an area where clearer identification of the role of Invest Australia, and the value that it is adding to the process, needs to occur.

Re-investment

The area of re-investment is a greater concern, and area of uncertainty, in the relationship between Invest Australia and State and Territory agencies. While the States and Territories are concerned about what they consider is an increase in the role of Invest Australia in re-investment, Invest Australia contends that role in re-investment is not new, and is essential in facilitation of new investment projects. Invest Australia also noted the difference between re-investment (where contact is made with companies already in Australia to seek out further investment) and aftercare (which is support for new firms or projects which have recently come to Australia). While this distinction is important, it is also easy to see how these roles can be linked, at least in the early stages, as both involve contact with the local contacts of foreign firms.

Given the role of State and Territory agencies in the final stages of facilitating a new investment, which in some cases involves a hand-over from Invest Australia staff, it appears reasonable to assume that the local contact in some re-investment activity could be initiated by the State or Territory agency (acknowledging the continuity of the relationships established in the initial investment). If this re-investment subsequently leads to the need to liase with overseas contacts, then this is where Invest Australia could add value through its offshore network. The balance of these roles is therefore similar to that in development of a new investment.

Re-investment is obviously an area of continuing negotiation between Invest Australia and their State and Territory counterparts (given the current protocol development process). It is evident, however that these protocols need to acknowledge the local presence of State and Territory agencies and Invest Australia's offshore network as the major comparative advantages of the respective levels of government. In this context, States and Territories should take a lead in using local contacts to develop re-investment opportunities (such as through their aftercare role).

5.2 Coordination with Commonwealth agencies

While not as complex an issue as coordination with State and Territory agencies, there are a number of important issues surrounding Invest Australia's relationship with other Commonwealth agencies that impact on its role as an investment promotion agency.

Austrade

Of all Commonwealth agencies, Austrade has the most similarities and, particularly offshore, the closest linkages with Invest Australia. The Blackburne review, in assessing Commonwealth agency activities in foreign investment attraction, recommended that those functions within Austrade that related to investment promotion be subsumed within Invest Australia, in order to establish Invest Australia as the 'one-stop-shop' for investment attraction.[27] As a result of these recommendations, there was a move to separate out some functions which were previously shared between Austrade and Invest Australia (including shared staff arrangements).

In consultations with Austrade and Invest Australia for this review, there was a strong sense that the current relationship is positive, and that there has been improvement in the relationship since the changes initiated since the Blackburne review. The two organisations currently have a Memorandum of Understanding (MOU) which establishes protocols for communication and cooperation. This MOU emphasises the importance of linkages between offshore offices and staff.

Both agencies recognised the value of relationships offshore between the two organisations, which are, on the whole, good but are influenced by personalities at any one location. These linkages are important given the close relationship between trade and investment promotion — described by one stakeholder as 'two sides of the same coin'.

In consultations with Invest Australia and Austrade staff, it was acknowledged that where the organisations work together offshore, for example through co-location, there can be significant benefits. This is particularly the case for Invest Australia given its significantly smaller offshore presence compared with that of Austrade. Conversely, Austrade recognises the value that it receives through Invest Australia's marketing and promotion activities, given that marketing is a core function for them.

Department of Foreign Affairs and Trade (DFAT)

DFAT is a related stakeholder to Austrade, though with some important differences. In consultations for this review DFAT acknowledged the importance of the role of Invest Australia. In relation to the coordination between Invest Australia and DFAT, there is recognition that there needs to be improved communications in offshore posts, and a suggestion that there would be benefits achieved through greater involvement of Ambassadors in Invest Australia's operations in offshore locations.

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27 I. Blackburne, 2001, *Winning Investment: strategy, people and partnerships, A review of the Commonwealth's investment promotion and attraction efforts*, A report to the Prime Minister.

5.3 Key findings

State and Territory coordination –

- There is strong support at all levels of government for the role of Invest Australia as the lead agency in marketing and promotion at a national level.
- In order to get sufficient buy-in from the States and Territories in relation to the National Investment Brand, there needs to be further consideration of the use and value of sub-brands — an area where some States and Territories have concerns.
- The offshore network of Invest Australia is considered to be an asset for States and Territories, and is an area where relationships could be strengthened further.
- In relation to Invest Australia's facilitation role; there remain concerns over the process of passing on leads to jurisdictions. This is an area where there needs to be clearer identification of the role of Invest Australia, and the value that it is adding to the process.
- Given Invest Australia's limited resources, the States and Territories should be encouraged to play a stronger role in providing on-shore assistance for re-investment. However it is recognised that re-investment provides major opportunities for increasing FDI and that where interstate expansion or decision making by foreign parent companies are involved, Invest Australia has a role to play.

Commonwealth agency coordination –

- There has been strong progress in the coordination and cooperation between Invest Australia and Austrade since the implementation of *Global Returns*.

Chapter 6

Appropriateness of priority sectors and markets

A further issue in considering the appropriateness of the role and activities of Invest Australia and its operations is the extent to which the priorities that guide the activities of Invest Australia are appropriate. This chapter discusses the current priority sectors and markets of Invest Australia, and assesses the approach taken in setting these priorities.

6.1 Priority sectors

The reality of constrained budgets for Investment Promotion Agencies (IPAs), like Invest Australia, means that agencies need to prioritise their activities in order to get the best outcomes from the funds that they have at their disposal. The Blackburne review recognised the need for a clearly defined, strategic approach, to setting priorities in foreign investment promotion:

> We can't afford, not would it be sensible to promote everything that we do… industry specific promotion needs to occur in those sectors in which Australia is assessed as having comparative advantage or excellent potential.[28]

This recommendation was reflected in *Global Returns*, which, recognising the need for a strategic approach to promotion, attraction and facilitation, developed a set of priority sectors for Invest Australia, with associated activities, as shown in table 6.1.

Table 6.1
INVEST AUSTRALIA PRIORITY SECTORS

Invest Australia priorities			Other priorities
Facilitation priorities	Extensive Promotion and Attraction Strategies	Limited Promotion	
• Mining • Energy (including Liquefied Natural Gas)	• ICT • Biotechnology (including pharmaceuticals) • Nanotechnology • Finance (through Axiss Australia)	• Renewable energy • Environment industry • Forest and wood products • Light metals	• Heavy Engineering and infrastructure • Spatial information • Film • Food

Source: Global Returns – The National Strategic Framework for Attracting Foreign Direct Investment.

In reviewing the role of Invest Australia, and its performance since *Global Returns*, it is important to assess the appropriateness of the current priorities, including the criteria under which priorities are selected.

[28] I. Blackburne, 2001, *Winning Investment: strategy, people and partnerships, A review of the Commonwealth's investment promotion and attraction efforts*, A report to the Prime Minister, p ii.

The criteria for setting priority sectors for FDI attraction

Most large scale IPAs internationally have established priority sectors. Targeting, or priority setting is a logical approach when faced with the prospect of promoting numerous sectors and sub-sectors to an even greater number of markets. Without a targeted approach, IPAs risk spreading themselves too thin across too many areas, without having any significant impact in any one sector.

In practice, industry targeting by IPAs can involve:

- setting their organisational structure around target industries with specialised staff responsible for specific industries;
- offering special services to targeted industries, including incentives or facilitation services; and
- focussing marketing activities and case management resources on special audiences related to target industries.[29]

A recent survey of 120 IPAs found two main rationales for industry or sector targeting:

> Some IPAs stated that their objective was to focus scarce promotion resources on industries where it would have the largest effect on the *volume* of inward FDI, such as particularly mobile industries, or industries in which their country has a comparative advantage. Other IPAs attempted to use targeting to focus investment promotion on improving the *quality* of FDI flows. For many IPAs this means using investment promotion to attract industries which diversify the local economy and bring new skills and technology.[30]

This finding highlights a crucial issue for IPAs when setting priorities: what is the objective of setting priorities, and under what criteria should priorities be set? This necessarily becomes a question of the main objective of a government in conducting activities which aim to attract FDI. The following are a range of potential objectives of IPAs in setting priority sectors.

- Increasing the volume of FDI, without a strong preference over the type of investment or the sector invested into. On this basis, IPAs will set priorities to maximise the effectiveness of their efforts in attracting as much new FDI (in monetary terms) as possible.
- Increasing FDI into sectors that have potential to grow within the domestic economy (based on current industry policy objectives). In this case, investment attraction activities are being leveraged to assist in the development of less mature industries that have been identified as having the best potential for growth.
- Increasing FDI into sectors or industries where there are gaps in the domestic market. In this case, an IPA would promote the current gaps in the domestic market as opportunities for foreign firms, recognising that there are benefits to the domestic economy from attracting a new foreign provider, which may be able to draw in other firms or additional investment — or around which new domestic markets can grow.

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[29] A. Charlton and N. Davis 2004, *Does Investment Promotion Work? Results from cross-country analysis at the industry level,* Oxford Investment Research Paper series.

[30] Ibid., p.4.

- Targeting those sectors that face the greatest barriers to investment, be that through greater risks to potential investors (and therefore, greater demand for robust information), or through greater regulatory or administrative barriers that increase the transaction costs of investing.
- Increasing FDI into sectors that are not currently areas of comparative advantage, but where governments wish to build domestic capabilities. This essentially targets sectors on an ‘aspirational’ basis rather than recognising current commercial opportunities or advantages.

These objectives are by no means mutually exclusive, but this break-down does highlight the difference in the approaches, and the need to understand the underlying objective in any priority setting exercise. This is particularly important when developing the approach to targeting the priority sectors. For instance, if governments wish to use investment promotion and facilitation to develop industries where their country does not currently have a strong comparative advantage, the approach of that promotion needs to be considerably different to that for an industry where there is an established reputation.

International approaches to setting priority sectors

Most investment promotion agencies set priority sectors. Table 6.2 shows the industries targeted by some of Australia’s competitor IPAs. Across all IPAs, there is strong targeting of information and communications technology (ICT) and biotechnology, indicating the extent of competition between IPAs for investment in these industries.

A number of countries signal the difference between their core strengths or comparative advantages and their aspirational sectors by offering incentives for investors to directly invest in that sector in that country. Box 6.1 shows some of the incentives offered in the Republic of Korea aimed at developing the country into a ‘regional business services hub’ in North-East Asia.

Box 6.1

INVESTMENT ATTRACTION IN SOUTH KOREA

Korea Trade and Investment Promotion Agency (KOTRA) is the Republic of Korea’s investment promotion agency. The economic expansion of the Republic of Korea has historically depended on the competitiveness of its manufacturing sector, particularly with respect to ships, electronics, and components.

The Republic of Korea is now aiming to establish itself as a regional logistics centre and business services (head-quarters functions, trade, finance, IT, design, R&D, leisure and tourism) hub for North-East Asia. In order to achieve this, it is proposed to develop three free economic zones around the Incheon international airport, and the Busan and Gwangyang ports, replete with state-of-the-art bridges, highways, ports, and utilities.

Incentives offered to attract FDI include:

- tax incentives (income and corporate tax, CEO salaries, import-tariff exemptions, and land-tax exemptions);
- financial support (preferential assistance in the construction of infrastructure);
- deregulation (streamlining of 34 different types of permission related to construction activities);
- more flexible labour market regulations (exemption from obligatory employment of veterans, the disabled and the elderly); and
- administrative support (one-stop shop for services related to over thirty areas).

Source: UNCTAD 2004, *World Investment Report 2004: The Shift Towards Services,* Geneva pp 199.

Table 6.2

SECTORS TARGETED BY FOREIGN IPAS

Sector	Australia	Finland	Ireland	New Zealand	Singapore	South Korea	Taiwan
Aerospace							✔
Agribusiness	✔						
Biotechnology	✔		✔	✔	✔	✔	
Chemicals					✔		✔
Component manufacturing						✔	
Electronics					✔		
Engineering			✔		✔		✔
Entertainment - audiovisual				✔			✔
Environment	✔	✔			✔		
ICT	✔	✔	✔	✔		✔	✔
Infrastructure						✔	
Logistics						✔	✔
Manufacturing	✔			✔			✔
Mining	✔	✔					
Nanotechnology	✔						✔
R&D						✔	
Services	✔						
Services - customer support			✔				
Services - education					✔		
Services - financial	✔		✔				
Services - health care		✔					
Tourism						✔	
Wood processing		✔		✔			

Source: Various IPA websites

Stakeholder views on current Invest Australia priority sectors

A number of factors influence Invest Australia's priorities. The inclusion of technology sectors such as ICT, biotechnology and nanotechnology are largely aspirational priorities, on the basis of the Australian Government's stated objectives of developing these technology sectors domestically (through the National Innovation System and the National Research Priorities). In contrast, the inclusion of minerals and energy industries recognises Australia's strong comparative advantage in natural resources (and are therefore only targeted for facilitation, rather than attraction or promotion).

The current priority sector framework was discussed at length in interviews for this evaluation. The current Invest Australia priority sectors have a strong technology focus, which is in line with the development of the National Investment Brand, the *Future is here – Technology Australia*. The three priority sectors with the strongest technology focus are ICT, biotechnology and nanotechnology. Each of these sectors relates to a particular 'enabling' technology and is in a relatively early stage of development compared with other industries. Stakeholder views on the appropriateness of these sectors as priority sectors for Invest Australia are mixed. On this issue, there were two broad schools of thinking on the appropriateness of these priorities, for instance:

- one set of stakeholders saw little value in promoting Australia in sectors where we do not hold a strong comparative advantage. These stakeholders considered that a better approach is to assess Australia's strengths and seek investment in those areas (and promote these strengths in marketing); whereas
- other stakeholders see investment attraction priorities as a means for government to have an impact on the type and ultimate destination of foreign investment, thereby directing new investment to those industries which it wants to develop. In this case, these technology sectors are considered to be strong growth sectors in the future, using highly skilled workers and not relying on limited resources unlike the minerals, energy or agribusiness sectors.

In the case of nanotechnology, which is the priority that puzzles many stakeholders, Invest Australia points out the value in developing an early strategy for emerging industries (something that was not done effectively for ICT or biotechnology in Australia).

Within Invest Australia there is an acknowledgment that, looking forward, there will need to be some adjustment to the current priority sectors, reflecting:

- the changes in sectors since *Global Returns* was launched; and
- the lessons learned by Invest Australia in following through on the priority sectors set out in *Global Returns*.

Invest Australia notes that, particularly with ICT and biotechnology, the period since *Global Returns* has been one of assessing Australia's capabilities in these sectors, in order to understand the best way to promote Australia in these sectors. The experience has been one of an increasing narrowing of focus; both as understanding of Australia's capabilities have improved, and also as changes within the sectors have occurred. For example, in ICT it is now widely acknowledged that there are segments of ICT manufacturing where Australia does not have the capabilities to be effective, and where the benefits of promotion and facilitation efforts on the part of Invest Australia would be very limited.

Consultations with other government stakeholders highlighted the difficulties for Invest Australia in targeting sectors that are, in reality, very broad and the parameters of which are changing rapidly. ICT, biotechnology and nanotechnology are all enabling technologies that permeate throughout the economy. In the case of ICT, several stakeholders stressed the need to be much more focused on assessing ICT opportunities, and targeting specific sub-sectors rather than ICT generically (as, given its breadth, targeting the entire ICT sector is a significant task).

Invest Australia is also acutely aware of the opportunity costs associated with setting priorities — with non-priority sectors receiving considerably less attention given limited resources. Since the release of *Global Returns*, there have been some sectors where, given strong interest on the basis of limited promotion and facilitation, there is a case for a higher level of priority. One clear example is agribusiness, interest in which has primarily been driven from the growth in FDI coming out of China. State and Territory government agencies also commented on the need to focus more on agribusiness. The defence industry sector was suggested as a new priority area.

6.2 Priority markets

A discussion of setting priority markets for FDI attraction involves many of the same concepts as those discussed in relation to priority sectors. As with priority sectors, selecting markets to target promotion, attraction and facilitation efforts is necessary given the numerous different markets for FDI globally.

Global Returns set out three priority regions for the Invest Australia offshore network: Europe, North America and Asia. While these categorisations appear broad, they highlight the focus on those markets where Australia has traditionally sourced the majority of its FDI — the USA and Western Europe (primarily the United Kingdom). The presence in Asia represents more emerging markets for FDI, particularly China that has, during the period since *Global Returns*, increased considerably its supply of FDI in the global market.

Invest Australia's strategy of setting priority markets impacts significantly on:

- The distribution and structure of the offshore network; and
- The approach to promotion, including advertising, which is focused in particular markets (and therefore needs to be appropriate for those markets).

Looking forward, to what extent do these priorities (and the related distribution of resources) remain appropriate?

Assessment of current market priorities

Invest Australia currently divides its offshore network into three broad regions, North America, Europe and Asia. Market priorities are focused, primarily on the major sources of FDI for Australia —the US, Japan and Western European countries (including the United Kingdom and Germany) — as well as recognising the need to be in emerging markets for FDI, such as China.

In consultations for this evaluation, there was overall support for the current targeting of markets, but several stakeholders noted the gaps in the current approach. Given limited resources (and the nature of targeting meaning that not all markets can be serviced), there are markets where there is little, or no, Invest Australia presence. Within this approach, however, it is necessary to be aware of future opportunities to ensure that the markets which receive the most attention remain the best potential sources of FDI. In this context, several stakeholders noted the lack of a presence in the Middle East and India, whose FDI has grown considerably in the last ten years (albeit from a low base).

A further discussion of the balance between different types of activity (for example promotion versus facilitation) across different markets is provided in chapter 8.

6.3 Key findings

- In setting priority sectors for investment promotion, attraction and facilitation, it is essential that there is a clear recognition of the underlying government objectives for targeting specific sectors over others.
- There is scope to use priority setting to target sectors where the government is seeking growth, or sees strong potential for the future (such as new technology sectors). In this case, the approach to promotion and attraction needs to be tailored to take into account the lower level of awareness of capabilities in these sectors.
- The current priorities for ICT and biotechnology refer to very broad sectors that have evolved considerably since *Global Returns* was released. In order for Invest Australia resources to be used most effectively, there is scope for a narrowing of the focus to sub-sectors within these broader classifications.
- The nature of priority setting means that there are opportunity costs of not attending to non-priority sectors in any significant capacity. Since *Global Returns* some sectors have emerged as being 'strong performers', where there are good potential gains through Invest Australia support.
- The current priority markets are appropriate given the current sources of FDI, as well as a focus on the emerging market for FDI in China.
- Further review of the opportunity costs of a lack of focus in Middle-East and India is warranted, to ensure that the current approach continues to be appropriate.

Part B

Effectiveness — The performance of Invest Australia and Axiss Australia

Chapter 7

The relative effectiveness of different Invest Australia activities

7.1 Effectiveness of Invest Australia's marketing and promotion

In the period since *Global Returns* marketing and promotion have been areas of significant progress for Invest Australia. The appointment of Garry Draffin as Chief Executive Officer with a marketing and broadcasting background has strengthened the focus on the role of marketing, including larger scale advertising campaigns and the use of a consistent message. The key initiatives have been:

- the launch of *Partnerships for Investment – the Australian inward investment marketing plan 2003-06*, which sets out Invest Australia's strategies for promotion, including approaches for different markets;
- the launch of the National Investment Brand, *The Future is here: Technology Australia* to be used in all marketing and promotion conducted by Invest Australia; and
- the launch of the new Invest Australia website, building on the new branding and advertising efforts.

Since the launch of the new marketing plan, Invest Australia has produced a series of advertising features in *The Economist* and *Forbes* magazine, as well as advertising in industry specific publications. The marketing and promotional materials have also been used extensively in promotional events and trade shows.

Current views of Australia has an investment location

The primary aim of the marketing and promotion activities currently undertaken by Invest Australia is to inform potential investors of the benefits of Australia as an investment location. As part of this promotion, Invest Australia uses an approach of promoting the '10 good reasons to invest in Australia', as shown in box 7.1.

It is valuable in an assessment of the effectiveness of the current marketing approach, to consider the views of potential and current investors in Australia as an investment location. A recent survey of subscribers of *The Economist*, in assessing the effectiveness of Invest Australia advertising, sought views on Australia by testing a series of statements with subscribers.

Box 7.1

'TEN GOOD REASONS TO INVEST IN AUSTRALIA' PROMOTION USED BY INVEST AUSTRALIA

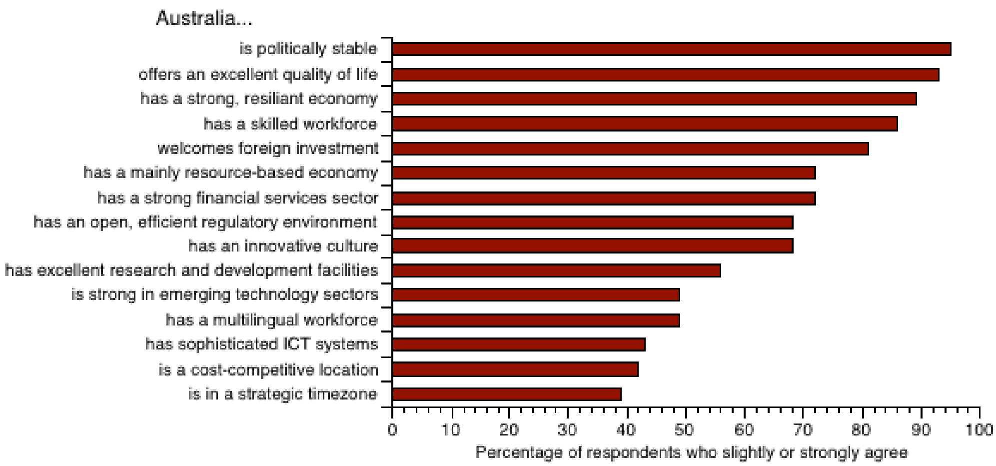
1. Strong economic credentials
2. Democratic and politically stable
3. Highly skilled and multilingual workforce
4. Growing financial services sector
5. Sophisticated infrastructure
6. Innovative culture with excellent R&D infrastructure
7. Cost competitive location
8. Open and efficient regulatory environment
9. Strategic time zone advantage
10. Excellent quality of life and welcoming attitude to foreign investment

Source: http://www.investaustralia.gov.au

Figure 7.1 shows the proportion of respondents who either slightly or strongly agree with the various statements about Australia. As shown in the figure, Australia ranks well in terms of social and political stability and economic conditions, but is less recognised as having capabilities in technology sectors, or strong research infrastructure. Respondents also did not support the view that Australia's position within the Asian time zone was a major advantage (or, perhaps did not appreciate the importance of a 'strategic time zone').

Figure 7.1

OPINIONS OF AUSTRALIA, SUBSCRIBERS TO THE ECONOMIST MAGAZINE



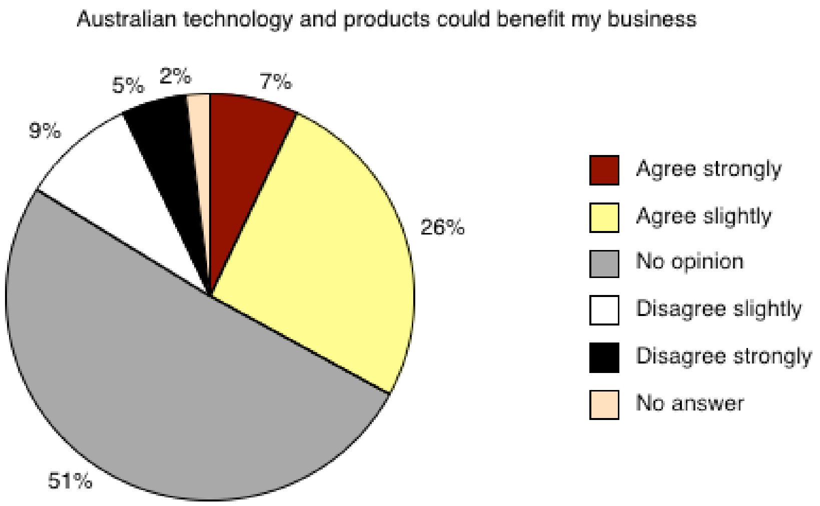
Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

The same survey sought views on whether firms believe that Australia has technology capabilities and products that would benefit their business. As shown in figure 7.2, just over half of the respondents did not hold a view either way on this issue, highlighting the fact that, while there are not strongly negative views of Australia's technology capabilities, Australia is not 'front of mind' when potential investors think about which countries hold the comparative advantage in technology industries.

These results have implications for the role of the marketing and promotion that Invest Australia undertakes in achieving results in the technology based priority sectors of ICT, biotechnology and nanotechnology.

Figure 7.2

VIEWS ON AUSTRALIA'S TECHNOLOGY CAPABILITIES



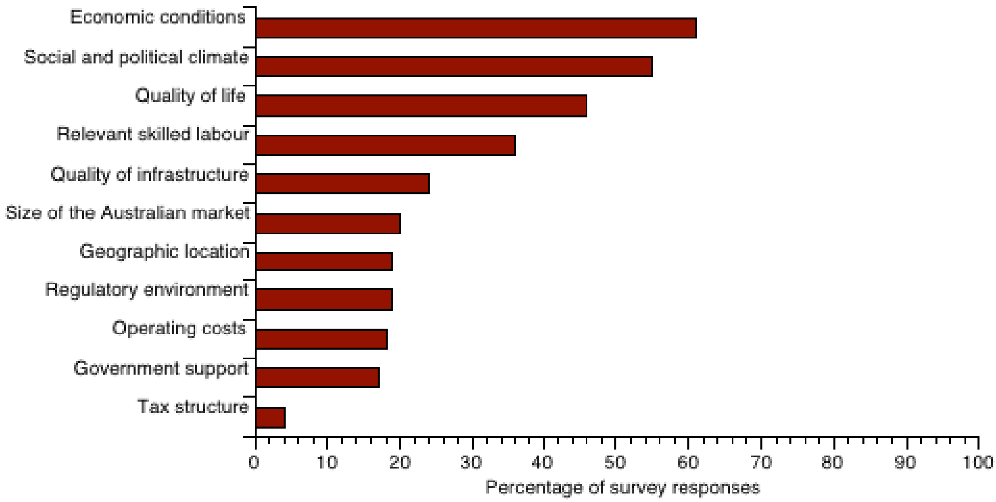
Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

The survey of investors undertaken for this evaluation also tested views on the advantages and disadvantages of investing in Australia. This information is valuable to determine how potential investors perceive Australia, and to identify those areas where there continues to be barriers to new investment.

As shown in figure 7.3, the views expressed by survey respondents are similar to those in *The Economist* study, with Australia recognised as a country with strong economic conditions, and a stable social and political climate. Again, investors did not see Australia's geographical position as an advantage, but rather (as shown in figure 7.4) saw it as the second highest *disadvantage* of investing in Australia. The current taxation structures within Australia were seen as the greatest disadvantage to investing in Australia.

Figure 7.3

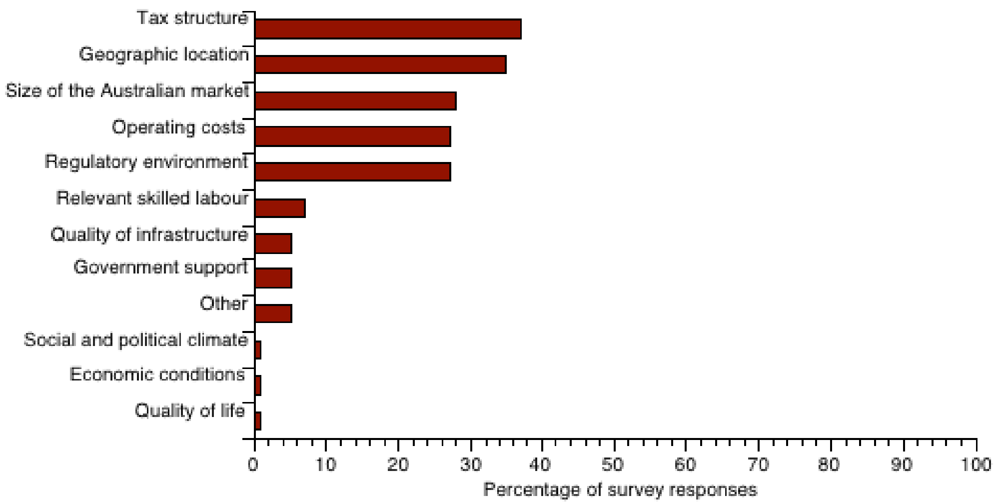
INVESTOR VIEWS ON THE ADVANTAGES OF INVESTING IN AUSTRALIA



Source: The Allen Consulting Group Invest Australia evaluation business survey

Figure 7.4

INVESTOR VIEWS ON THE DISADVANTAGES OF INVESTING IN AUSTRALIA



Source: The Allen Consulting Group Invest Australia evaluation business survey

Evidence of the effectiveness of current Invest Australia marketing

Assessing the effectiveness of marketing and advertising is an inherently difficult task. Individuals are bombarded with a massive amount of advertising and marketing messages every day. The extent to which they pay attention to a particular message, and then choose to act on that message is uncertain. General advertising, for instance through mass print or broadcast media, is a broad scale but rather indirect tool, and it must therefore be used only in particular circumstances with particular objectives in mind.

As previously discussed, for investment promotion agencies, the promotion or 'image building' role is the first stage of engaging with potential investors. It is valuable as a tool to get a specific message to a large group of potential investors, but does not necessarily lead to new investment in isolation of the subsequent attraction and facilitation services. It is in this context, therefore, that the effectiveness of Invest Australia's recent marketing efforts should be assessed.

Stakeholder views

This evaluation sought views from stakeholders on the current marketing and promotion approach of Invest Australia. A majority of stakeholders consulted agreed the stronger focus on marketing and promotion for Invest Australia is a positive step, and is a role where Invest Australia holds a comparative advantage compared with State and Territory agencies.

While most stakeholders recognised the need for, and value of, a National Investment Brand, the current branding is seen to have some shortcomings which need to be addressed. In particular, the use of the 'Technology Australia' terminology with the 'Future is here' is considered to be too generic to the point of not providing a strong message. Further, there is confusion over the use of the various sub-brands, which some stakeholders feel can detract from the concept of setting up a brand which will be recognised. For example, the Master Brand Guidelines released by Invest Australia sets out six sector sub-brands and eight regional sub-brands, which can be mixed and matched, leading to the potential for 48 different sub-brands. State and Territory agencies questioned the value of having so many sub-brands, and the relatively generic nature of the potential brands (for example, Technology NSW, or Mining Australia).

Several stakeholders questioned the effectiveness of the various advertising initiatives, including those in *The Economist* and *Forbes*, given their significant cost. There is concern that these efforts are not necessarily effective ways to target potential investors, and that perhaps the funding would be better spent in additional facilitation resources, such as extra offshore staff.

Investor survey

The survey of both recent and potential investors to Australia tested the extent to which investors were aware of the marketing that Invest Australia conducts internationally, and views on the effectiveness of this marketing.

As shown in figure 7.5, 44 per cent of investors who responded to the survey reported being aware or having seen marketing or promotional materials produced by Invest Australia. A further 42 per cent were uncertain, perhaps suggesting that they have seen some promotion and marketing of Australia but were not sure of the source.

Looking at this result across the four main types of investor surveyed, it is apparent that the greater the involvement that an investor has had with Invest Australia the more likely it is that they are going to be aware of the marketing that Invest Australia conducts. The 100 per cent awareness for investors in the financial services sector (who have worked with Axiss Australia) highlights the stronger role of Axiss Australia in providing research and information services (as well as promotion and facilitation).

Figure 7.5

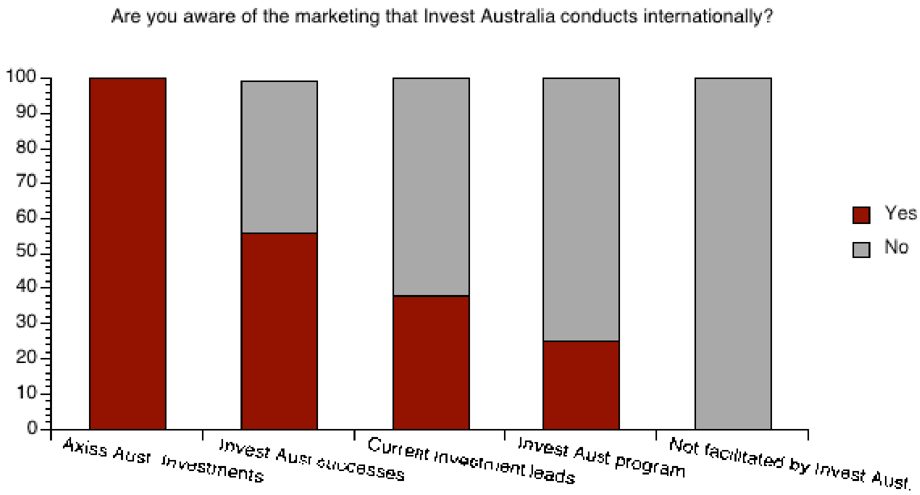
AWARENESS OF MARKETING

Source: The Allen Consulting Group Invest Australia evaluation business survey

The relatively low proportion of Invest Australia program participants who are aware of Invest Australia marketing reflects the fact that the majority of these firms are based in Australia (as opposed to the other categories, for which the respondents are predominantly based overseas).

Figure 7.6

AWARENESS OF MARKETING BY TYPE OF RESPONDENT



Source: The Allen Consulting Group Invest Australia evaluation business survey

For those investors who are aware of Invest Australia's marketing, more than half agreed that the marketing was well targeted for their industry (see figure 7.7), though to date the major marketing initiatives have been relatively 'generic' and broad in their approach and are therefore likely to be broadly relevant to most industries.

Figure 7.7

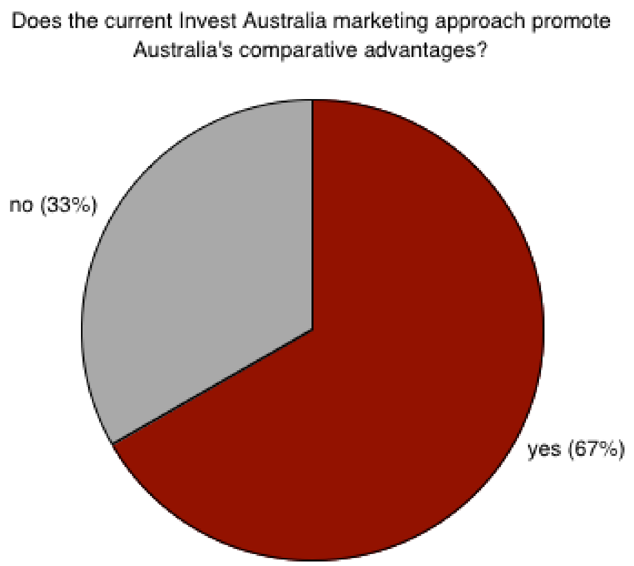
TARGETING OF MARKETING

Source: The Allen Consulting Group Invest Australia evaluation business survey

The survey of investors further tested their views on whether the current marketing approach was effectively promoting Australia's comparative advantages. As shown in figure 7.8, 67 per cent of investors agreed that the marketing is appropriately targeted. On this issue, some investors did comment that they felt the current approach was too technology focused, when they considered Australia's major comparative advantages to be in natural resources.

Figure 7.8

PROMOTION OF AUSTRALIA'S COMPARATIVE ADVANTAGES



Source: The Allen Consulting Group Invest Australia evaluation business survey

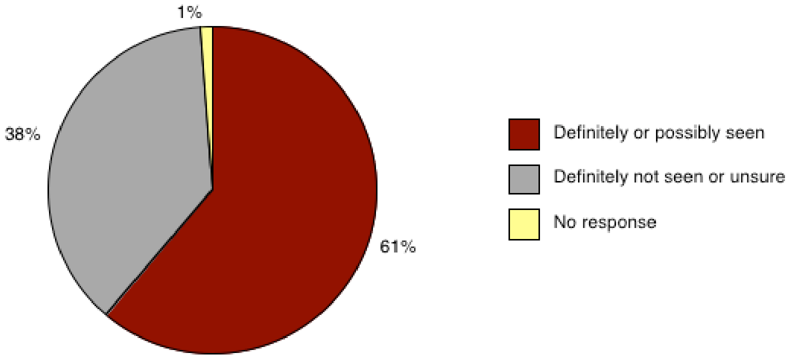
The Economist survey

The only major study of the impact and effectiveness of the recent Invest Australia marketing activities is research commissioned by *The Economist* assessing the impact of Invest Australia advertising features. This study involved a survey of over 4000 subscribers to *The Economist* from around the world, with 752 responses received. The survey tested the extent to which readers had noticed and read the Invest Australia advertising feature, and the impact of this advertising on views of Australia as an investment location.

In the survey, individuals were provided a copy of a recent Invest Australia advertising feature and asked whether they could recall seeing the feature or any other feature in the series published in *The Economist* magazine over recent months. As shown in figure 7.9, more than 60 per cent of respondents reported that they had definitely seen, or had possibly seen the feature, a relatively strong response (though the prompting of providing the feature to individuals likely increased this recall).

Figure 7.9

PROPORTION OF INDIVIDUALS WHO RECALLED SEEING THE INVEST AUSTRALIA ADVERTISING FEATURE IN THE ECONOMIST

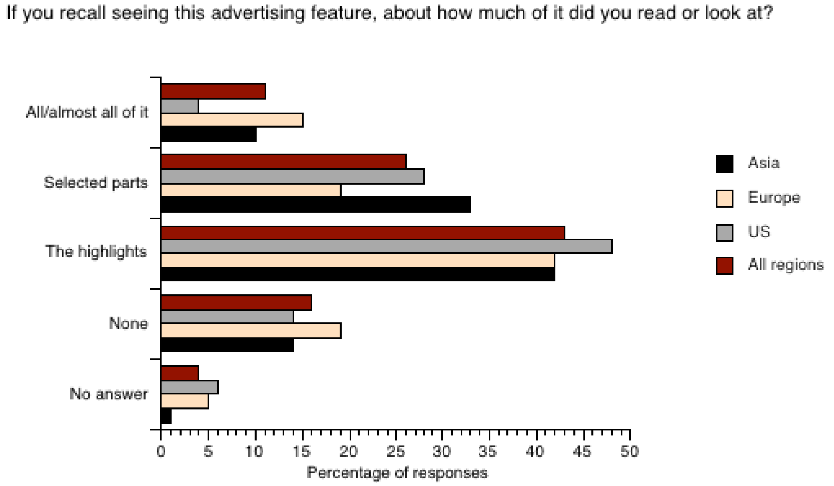


Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for *The Economist* on behalf of Invest Australia, October 2004.

Of those respondents who said that they had seen the feature, the largest proportion (43 per cent) reported that they had looked through ‘the highlights’ (see figure 7.10), which most likely means looking at the major headings and the graphs provided. This trend highlights the importance of not relying on the small text to get your major message across, as a large proportion of readers ‘skim’ over the details of the feature.

Figure 7.10

THE PROPORTION OF ECONOMIST READERS WHO READ INVEST AUSTRALIA ADVERTISING

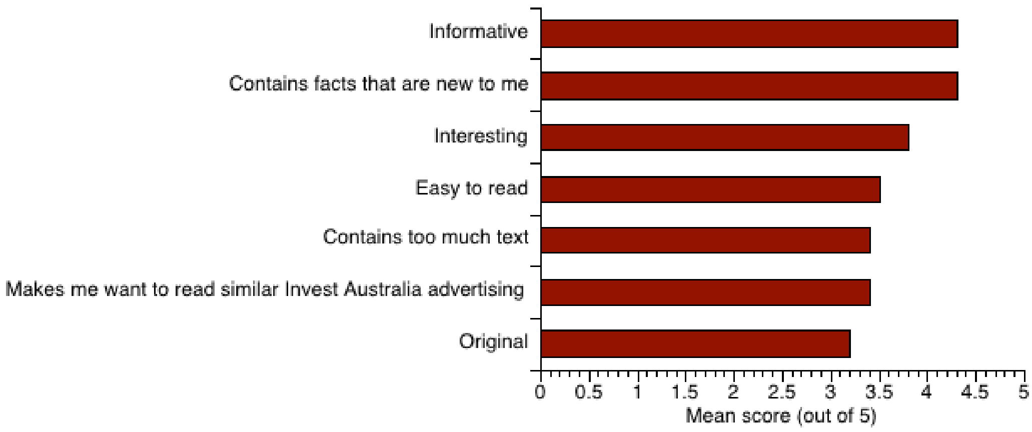


Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

Respondents were asked to rate the advertising feature against seven criteria, as shown in figure 7.11. Overall, the feature rated highly with respondents, particularly in being informative and providing new information (perhaps also indicating the general lack of knowledge of Australia as an investment location). It was a concern for some respondents that the feature contained too much text.

Figure 7.11

RATING OF THE INVEST AUSTRALIA ADVERTISING FEATURE



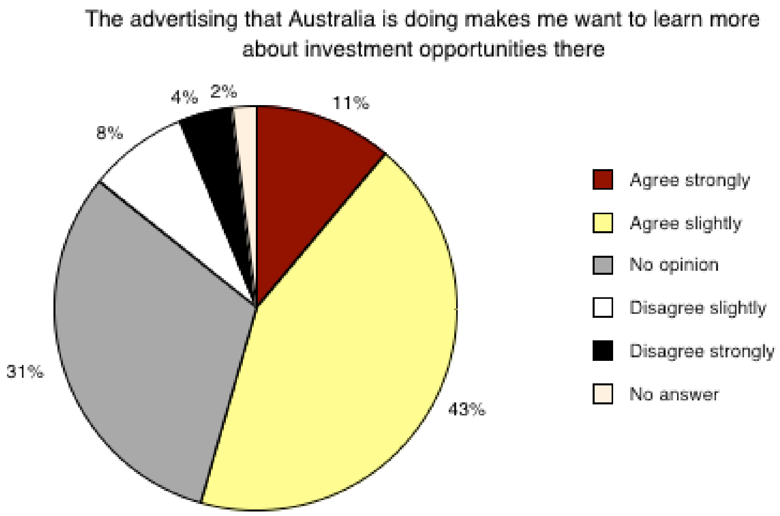
Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

This related to the nature of advertising in *The Economist*, by making the feature appear similar to the articles in the magazine and less like advertising. The main difficulty with such an approach is that you can get 'push-back' from some readers who recognise that the feature is an advertisement, and do not wish to read further.

The advertising rated well in 'kick-starting' an interest in Australia amongst respondents, with more than half of respondents (54 per cent) reporting that the advertising made them want to learn more about investment opportunities in Australia (see figure 7.12). This indicates that this style of marketing is effective in starting an initial idea or interest from which other services, such as investment attraction, can be leveraged.

Figure 7.12

IMPACT OF INVEST AUSTRALIA ADVERTISING



Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

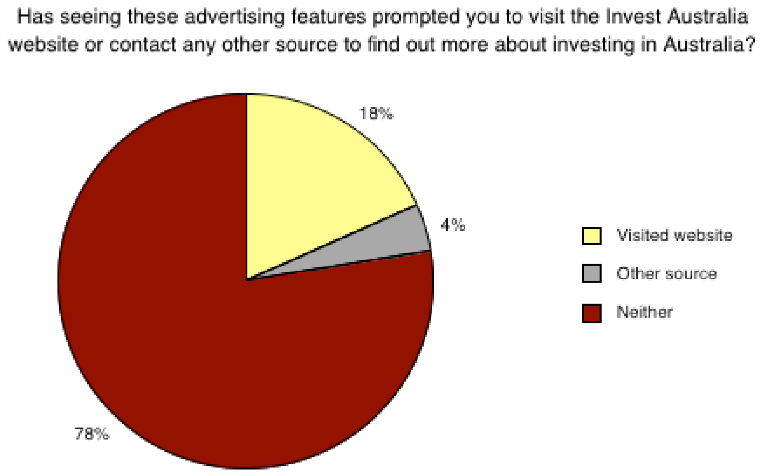
Of those respondents who read the Invest Australia advertising feature, 22 per cent sought further information about Australia, including 18 per cent who visited the Invest Australia website (see figure 7.13). While this number appears relatively low, it is not a poor result given the predominantly indirect mechanisms being used (for instance, some people who read or take notice of the advertising are not necessarily in a position to invest in Australia, and are therefore not in Invest Australia's target audience).

The Economist survey also sought information from respondents on how the advertising changed their opinions of Australia as a potential investment location. As shown in figure 7.14, the overall view of Australia for respondents is moderate to strong, with stronger views in the USA (41 per cent viewing Australia as a 'strong' investment location), compared with Asia, where 45 per cent view Australia as a 'moderate' investment location.

The cluster of views in the middle ranges of the rating supports other studies on views of Australia which show that overseas investors or business people do not harbour overly negative views about Australia (in an aggregate sense), but similarly Australia is often not on the radar when these types of decisions are being made (evidenced by the general lack of Australian news or current affairs overseas).

Figure 7.13

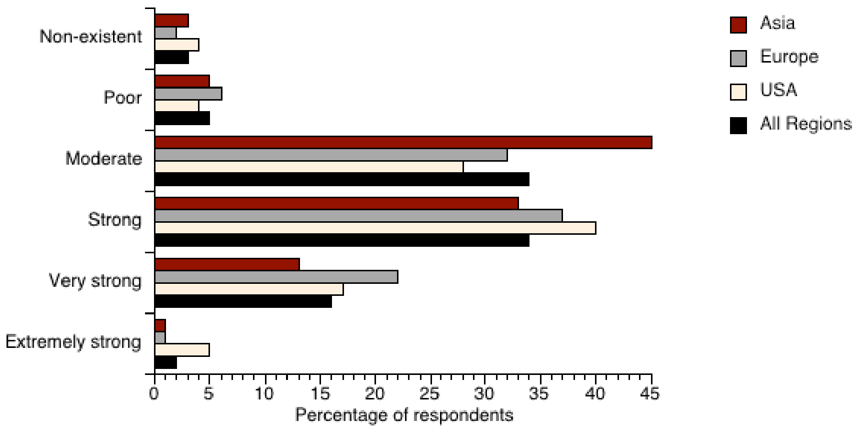
ACTIONS TAKEN AFTER READING INVEST AUSTRALIA ADVERTISING



Note: Other source included, the Prime Minister's website, Australian Financial news, Tourism industry website and information on Australia companies.
Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

Figure 7.14

OPINIONS OF AUSTRALIA AS AN INVESTMENT OPPORTUNITY PRIOR TO READING ECONOMIST ADVERTISING

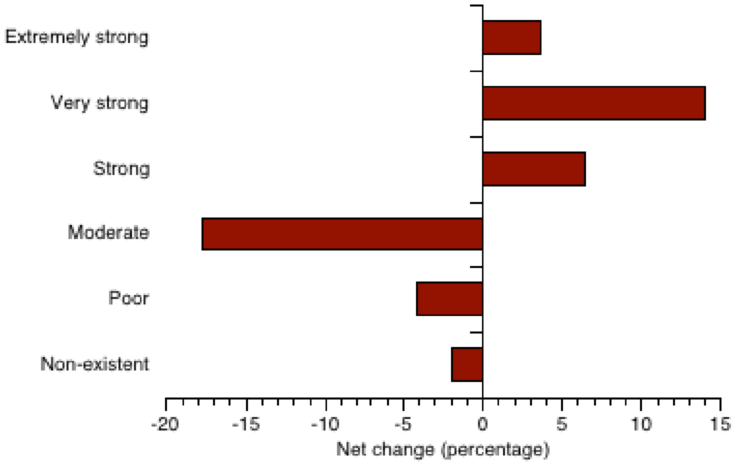


Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

Assessing the impact of the information provided in the advertising feature shows that there is clearly a positive impact of the information, as shown in figure 7.15. This figure shows an increase in the proportion of respondents with positive views of Australia as an investment location after reading the advertisement — the majority of which moved from having a moderate view to a positive view. This reinforces the value in providing information on Australia to those who have not thought of Australia in this context before.

Figure 7.15

CHANGE IN OPINION OF AUSTRALIA AS AN INVESTMENT OPPORTUNITY AFTER READING THE ECONOMIST ADVERTISING FEATURE

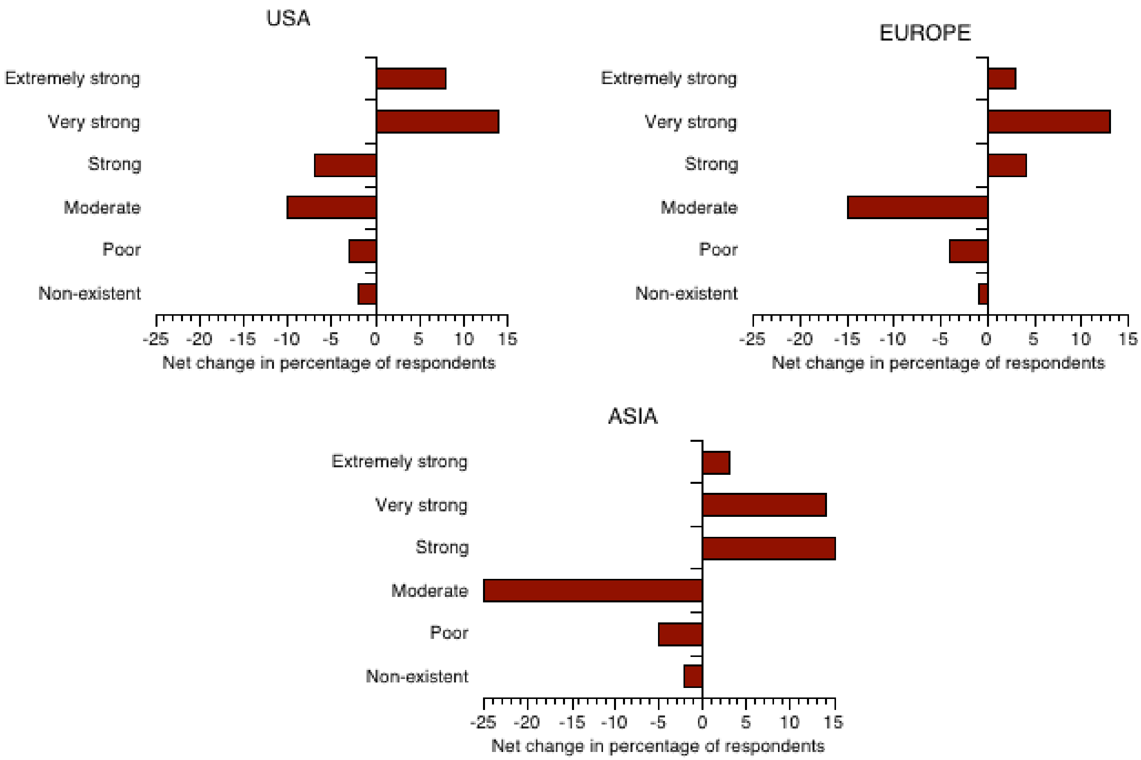


Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

Figure 7.16 shows the net change in views on a regional basis. This data shows that the advertising was effective across these three broad markets, especially in Asia where there was a higher proposition of respondents with moderate, rather than strong views on Australia as an investment location.

Figure 7.16

CHANGE IN OPINION OF AUSTRALIA AS AN INVESTMENT OPPORTUNITY AFTER READING THE ECONOMIST ADVERTISING FEATURE — REGIONAL BREAKDOWN



Source: Media Plus Research, *Invest Australia Advertising Study: management summary*, prepared for The Economist on behalf of Invest Australia, October 2004.

Web and electronic media activities

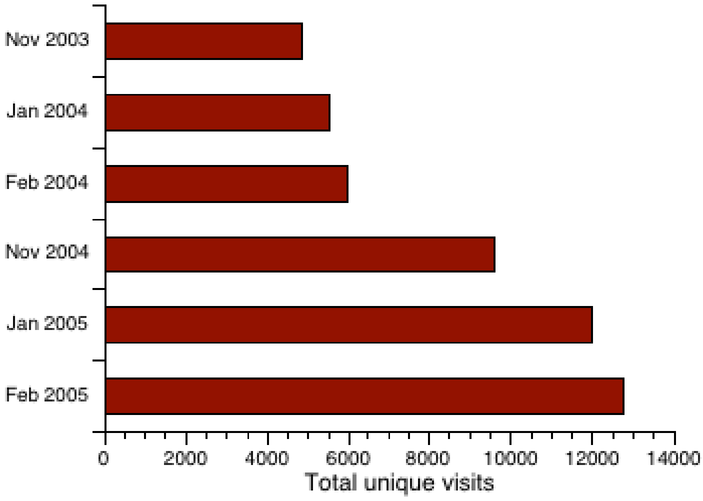
Following *Global Returns*, Invest Australia launched a new website which was consistent with the other marketing initiatives (in style and terminology), and also launched a new email newsletter, INFLOW. Given the increasing tendency for individuals to seek information on the Internet in the first instance, it was recognised that the website is a very important marketing and promotion tool, and a place where interested investors who have seen advertising can gather further information.

Determining the effectiveness of websites and other electronic forms of media is inherently difficult for similar reasons to those discussed for other forms of marketing and promotion. The website is effectively a modern form of promotion which is information rich. It is difficult to determine the proportion of ultimately successful investments where the website has played a major role, but the level of activity on the site can provide this evaluation with an indicator of the degree to which potential investors are engaging with the website and using it as an information tool.

Since the new site was launched, there has been consistent growth in the number of 'unique' visits (visits from new users rather than multiple visits from the same user), as shown in figure 7.17.

Figure 7.17

TOTAL UNIQUE VISITS TO THE INVEST AUSTRALIA WEBSITE, NOV 2003 – FEB 2005



Source: Invest Australia 2005, Post-implementation Review of Interactive Marketing – Invest Australia, 7 March 2005

Invest Australia has also had a strong response to their fortnightly e-newsletter *INFLOW*. There are now currently just over 10 000 *INFLOW* subscribers. *INFLOW* has proven to be a positive factor in directing subscribers to the Invest Australia website, with the average 'click-through' rate to the internet site increasing from 9.8 per cent in November 2004, to 18.4 per cent in February 2005. In those weeks where *INFLOW* is distributed, there is an upward trend in the number of hits on the website.

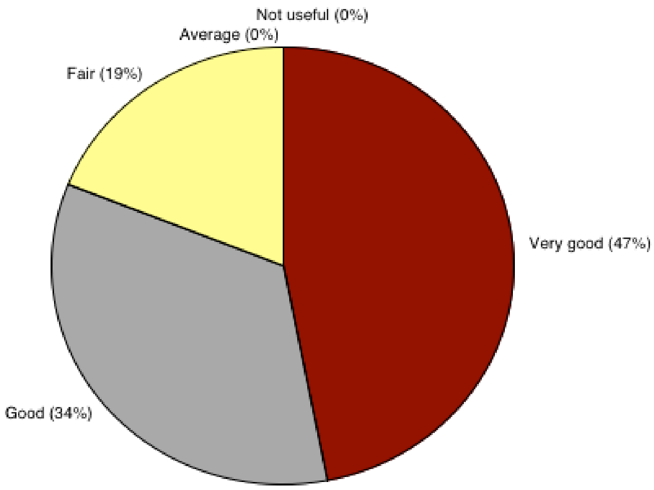
Invest Australia reports that *INFLOW* subscribers who visit the website mainly visit the website for information on:

- Invest Australia and its services;
- Australian Government assistance for inward investment;
- Investment opportunities in Australia;
- Foreign investment successes.

A recent survey of *INFLOW* subscribers found that it is considered to be a valuable information source, as shown in figure 7.18.

Figure 7.18

RATING OF INFLOW E-NEWSLETTER BY INFLOW SUBSCRIBERS



Source: Invest Australia 2005, Post-implementation Review of Interactive Marketing – Invest Australia, 7 March 2005

In general, stakeholders provided positive comments on the new website. There were some concerns expressed about what some people consider is an overly complicated layout and use of 'frames'. A smaller number of stakeholders also noted the problems of viewing the website on Apple Mactinosh computers, with the frames not working and the site in general not being able to be viewed in a productive way. Invest Australia has informed this evaluation that a solution to this problem has been found, and the website is expected to be relaunched with full access to Macintosh users by August 2005.

7.2 Effectiveness of attraction and facilitation and program services

While promotion and marketing activities are rather broad and indirect means of developing new investment leads, the other services that Invest Australia provides are significantly more 'hands-on' and rely on skilled staff to develop good relationships with potential investors to guide a lead to the point of new investment. Other than to look at the broader data on successful investments facilitated by Invest Australia (which also incorporates the contribution of any marketing or promotion), there is no data on the effectiveness of attraction and facilitation functions specifically. These are, however, the core elements of the work in offshore posts, and there were a number of aspects of this work, and where it adds value, that were discussed in consultations.

In consultations for this evaluation, there was considerable emphasis placed on the importance of offshore staff in relationship and network building, from which new leads can be generated. Offshore staff noted the considerable work that they do in targeting potential investors, and arranging events such as seminars, dinners with Ministers or more social events such as wine tastings, to which potential investors are invited. This approach is reported to be particularly valuable in the North American markets.

In China, there appears to be a particularly strong emphasis placed on developing relationships with potential investors, and earning their trust though having locally engaged staff in the region who speak the language and understand the business culture. China is also a good example of the importance of recognising the differences across regions, with southern China considerably different in its business culture, and with a different language, than northern China. Invest Australia has experienced difficulties in attracting new investments out of Southern China because of its lack of a local presence there. This experience highlights the value that offshore staff add through attracting new investment and facilitating their progress.

Within the facilitation role, the other major activity for Invest Australia is the management of three programs that work to provide support for new projects in various ways.

- *Major Project Facilitation* — through this program, Invest Australia works with major projects, providing assistance with regulatory and administrative processes.
- *Supported Skills Program* — through this program, Invest Australia works with companies to gain concessions for the migration of senior staff.
- *Strategic Investment Coordination* — Invest Australia provides administrative support for this process; the decisions for this are ultimately decided by Cabinet.

These programs have their place within the broader facilitation framework. In consultations for this evaluation, there was strong support for the role of Major Project Facilitation and the Supported Skills Program, though some stakeholders did comment that these appear to be primarily targeted at large, resource based projects (given the nature of the support provided). With regards to the SIC process, several stakeholders commented on the role of the Strategic Investment Coordinator being vacant, and the need for this position to be filled if the SIC process is to be effective.

7.3 The balance of approaches across markets and sectors

When considering the balance of Invest Australia's efforts across promotion, attraction and facilitation activities, there is no 'one size fits all' approach. What is a successful approach in Europe may not be an appropriate approach in China and vice versa. Similarly, the need for promotion in minerals and energy sectors is minimal (though not for Chinese investors), whereas it is vital in the emerging sectors, such as biotechology, where Australia does not have an established reputation.

Different approaches across markets

An issue that emerged from interviews for this evaluation was whether some markets can be serviced through primarily promotion and marketing efforts, while for other markets a strong facilitation approach is necessary in assisting potential investors (perhaps due to cultural or language differences). In these discussions, some stakeholders took the USA and China as examples of how this approach could be applied, noting that:

- in the USA, where there are no major cultural or language differences from Australia, and where there is an extensive business media, promotion through this media will get the message out to potential investors, who are likely to be able to communicate directly with potential partners, and therefore require minimal facilitation support; whereas
- in China, where there is still a developing business culture, and a limited business media, facilitation is very important in overcoming language and cultural barriers to investing in Australia.

Following this argument to its logical conclusion, Invest Australia should focus on facilitation in markets such as China, and put relatively less facilitation effort in the North American market (and perhaps also, the United Kingdom for similar reasons).

These issues were discussed at length with offshore Invest Australia staff and other government stakeholders. It was emphasised to the review team by offshore staff that, in all markets, there is no substitute for people on the ground. In the case of the US, it was pointed out that a large proportion of Americans have a limited knowledge of Australia, and what knowledge there is, is strongly influenced by tourism promotions and other media which plays off images of Australian 'outback' and beaches, rather than showing Australia as a highly urbanised, modern country. It therefore cannot be assumed that potential investors in the United States do not need or value facilitation support from staff located in the USA.

Previous discussion in this report has highlighted the linkages between the various stages in the development of a new investment. It is not appropriate to consider promotion or facilitation as an either/or proposition in relation to specific markets, due to the linkages between the effectiveness of one role being dependent on the extent to which other roles are fulfilled. For example, promotion in isolation is likely to be less effective than when followed up with an approach from offshore Invest Australia staff, or where offshore staff provide answers to questions prompted by the marketing. Equally, without the promotion and marketing activities reaching a broad audience and increasing the level of general interest and inquires to offshore staff, the staff would have a significantly smaller pool of potential investment to work with.

Different approaches across sectors

For those priority sectors set in *Global Returns*, there are identified activities for Invest Australia (as shown in table 6.1). This approach targets those sectors where Australia has a strong comparative advantage through natural resources (such as minerals and energy) for facilitation services. For other sectors where Australia is still developing its international reputation, such as the technology sectors, there is a stronger focus on promotion and attraction.

In consultations for this evaluation, there was strong support for this style of approach to sectors — recognising that, as with markets, there is no one approach which will work for all sectors. The results from surveys of investor perceptions highlight that Australia is not 'front of mind' when investors think of countries with a comparative advantage in technology based industries. Therefore, in these industries, there needs in the first instance to be a stronger effort on promotion activities that are specific to that sector. The approach up to this point has been a predominantly generic message of the broader benefits of investing in Australia. For those sectors where international knowledge of Australia's capabilities is lacking, a more targeted approach to individuals and firms within the sector is now necessary.

7.4 Key findings

- The renewed emphasis of the marketing and promotion role for Invest Australia, through initiatives coming out of *Global Returns* has strong support from most stakeholders, and is seen as a key role for Invest Australia.
- The current National Investment Brand, while recognised as a valuable tool, needs to be reassessed to consider the appropriateness of the Technology Australia terminology and the use of multiple sub-brands, which have the potential to dilute the message.
- There is currently a low awareness and recognition of Australia as a country with strong capabilities and comparative advantages in technology sectors.
- There is evidence that the current generic marketing activities, primarily through advertisements in business advertising, is effective in prompting potential investors to think of Australia, and has been shown to improve reader's perceptions of Australia as an investment location.
- The value of the offshore network in investment attraction and facilitation is clearly acknowledged by all stakeholders, with a consistent emphasis on the value of relationships with potential investors.
- While it is acknowledged that there it is not appropriate to have a 'one size fits all' approach to promotion, attraction and facilitation in different markets, having staff offshore is considered essential for all markets. There is little evidence to support the suggestion that some markets can be serviced by marketing and promotion alone.

Chapter 8

Impact on FDI flows to Australia

8.1 Measuring the impact

Measuring the effectiveness of an investment promotion agency is a difficult task. Foreign investment decisions are primarily based on private sector decisions of expected returns, with the work of an investment promotion agency one of many other influences at the margin of the decision making process. The work of an IPA can therefore impact on the decision of where a new investment is located, but is only one of many factors that can impact on an investor's decision.

The Australian government appears to be doing a lot to attract foreign direct investment. The internet presence of the Australian government is very strong and the sites are useful, helpful and informative.

International firm

As is the case with any evaluation of a government initiative, such as a program or service, it is difficult to determine the actual impact of the initiative. A measure of the monetary value of investments attracted may not fully capture the long-run value of that investment to the economy (eg, with regards to flow-on and spillover effects), and understate the impact of investment promotion activities.

Box 8.1

MEASURING ADDITIONALITY OF GOVERNMENT INITIATIVES

A key measure of the effectiveness of a government initiative is the amount of additional activity — be it increased investment, increased research or other targeted activities — that is induced through the efforts of the government initiative. This is known as *additionality*. In order to determine additionality of a program it is necessary to establish the counterfactual position — the level of activity in the absence of support. This is inherently difficult.

One method in determining the additionality of a government service or program is to ask, say, investors to Australia whether they consider that they would have made the investment in the absence of assistance from Invest Australia. This method takes advantage of the knowledge that investors have of their interaction with other Australian programs, with the promotion agencies in their own countries, and the extent to which each of these assisted with their decision to invest in Australia.

There are, however, some shortcomings to this approach. It requires investors to make a subjective assessment, based on criteria that may not be applied consistently across all investors surveyed. Another difficulty is that it cannot be assumed that investors have adequate knowledge to correctly predict how their investment might have progressed in the absence of the efforts of Invest Australia.

An alternative survey method is to survey corporate investors who invested in Australia without the assistance or knowledge of Invest Australia. The major advantage of this approach is that the assessment is based on an observed outcome rather than an assessment of the hypothetical — these investors demonstrably made a decision to invest in Australia without the assistance of Invest Australia.

Another option is to survey investors who were unable to make a case for support from Invest Australia, and establish whether or not their investment went ahead in the absence of this support. While these results can provide some insight into how well a government program is addressing a need and effectively inducing activity, there is an issue of selection bias.

It is likely that successful investors are successful because of the quality of their application and the potential benefits of their project. Thus, these projects would likely be successful in achieving support through other means. Equally, the progression of unsuccessful investors may be due to inherent problems with the project or application, rather than the absence of support from Invest Australia.

Source: The Allen Consulting Group

On the other hand, the impact may be overstated if no consideration is made to account for investments that would have occurred regardless of government involvement. This latter complication is known as the 'additionality' of a government program or service, and is discussed further in Box 8.1.

In the case of Invest Australia, the primary indicator of effectiveness is the extent to which the organisation supports FDI to Australia that would otherwise not have occurred. The flow-on benefits of this FDI are measured through the value of the investment and the employment generated. Within this context, Invest Australia has internal performance indicators relating to specific activities, such as visits and presentations, but the ultimate goal of these activities is the attraction of new FDI.

Given the involvement of State and Territory agencies in investment promotion, and the current protocols on lead sharing through the FILS and FIBs processes, attribution to a particular government agency is also a difficulty in measuring effectiveness. It is easy to understand why each agency involved would like to report their involvement in successful investment, and most agencies' Key Performance Indicators (KPIs) seek results of this fashion. However, the nature of the current system of coordinating and sharing Invest Australia leads means that, in reality, these successes have 'many fathers', as one stakeholder phrased it.

Therefore, in this chapter, the analysis of investments facilitated by Invest Australia does not necessarily assume that there was not also a role for, or played by, other agencies.

8.2 FDI facilitated by Invest Australia

The major source of information on successful investments facilitated by Invest Australia is through verification surveys conducted by Invest Australia itself. Invest Australia maintains a database of the number and value of foreign investment projects it has facilitated (as identified through the verification surveys), with information on the extent of Invest Australia's role in the success of the investment. Based on this information, Invest Australia and Axiss Australia attracted:

- A$6.95 billion of new and acquisition investment and 4377 new jobs in 2002-03;
- A$7.1 billion of new and acquisition investment and 2610 new jobs in 2003-04; and
- A$10.6 billion of new and acquisition investment and 4352 new jobs in 2004-05.

Most of the benefits from the new investments attracted can be attributed to the programs offered by Invest Australia, namely Major Projects Facilitation and the Supported Skills Program. Over the three years for which data is available, the programs have accounted for between 57.9 per cent and 96.3 per cent of all new and acquisition investment attracted, and between 15.5 per cent and 75.7 per cent of new jobs created.

While it is encouraging to see an increasing trend in the value of investment attracted to Australia, if not also the number of new jobs created, the pool of global FDI is quite volatile from one year to the next. As a result, it is necessary to put Australia's performance into context, by comparing it with other countries. Table 8.1 shows the top three destinations for FDI flowing out of the countries that Invest Australia targets and into the industries that Invest Australia targets.

The most popular destinations for overall FDI[31] were China, India and the USA. Analysing the most popular destination countries by industry reveals that Australia was only in the top three once — for FDI from France in the financial services area.[32] In the general market for global FDI, Australia remains a relatively 'small player'.

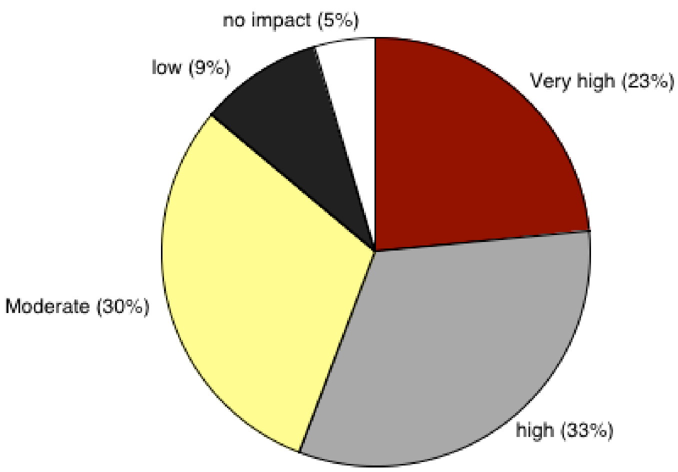
However, the data available to conduct this cross-sectional analysis is only available for six months, and provides no indication of the value of the investments or the amount of employment likely to be generated. It is also not possible to identify the extent to which Invest Australia was involved in the lead-up to the announcement or subsequent facilitation of the project.

The impact of Invest Australia assistance on new investments

The survey of investors conducted for this evaluation sought views from investors on the impact of the support that they received from Invest Australia on the success of their investment. As shown in Figure 8.1, the majority of investors reported that the support received from Invest Australia had a significant impact on the success of their investment (56 per cent reporting either high or very high impact). This result is a strong indicator of the effectiveness of Invest Australia's assistance in progressing those new investments that may otherwise have found it difficult, or more costly to undertake in Australia.

Figure 8.1

IMPACT OF INVEST AUSTRALIA ASSISTANCE ON SUCCESS OF INVESTMENT



Source: The Allen Consulting Group Invest Australia evaluation business survey.

31 Measured in terms of number of new projects announced between January and June 2004.

32 IBM Business Consulting Services Plant Location International 2005, *Half Yearly Investment Review: First half year 2004*, Canberra.

Table 8.1

TOP THREE FDI DESTINATIONS FOR FDI FROM IMPORTANT SOURCE COUNTRIES INTO INDUSTRIES TARGETED BY INVEST AUSTRALIA, JANUARY TO JUNE 2004

Source Country	Top three destinations - overall	Top three destinations - Agribusiness	Top three destinations - Biotechnology	Top three destinations - Financial Services	Top three destinations - ICT	Top three destinations - Manufacturing
Canada	USA Canada India	Bulgaria Canada China	Ireland Canada China	Canada China Brunei Darussalam	USA India Canada	USA Austria Korea
China	India Brazil Vietnam	n.a.	Hong Kong Mozambique Vietnam	Hong Kong Bahrain	Brazil India United Kingdom	Indonesia Iran Pakistan
France	China USA India	Brazil Canada China	Hungary USA Spain	China USA Australia	India Singapore USA	Turkey China Brazil
Germany	China USA United Kingdom	United Kingdom Spain Belgium	China USA Spain	China USA Singapore	USA China Singapore	USA China Hungary
India	USA China United Arab Emirates	n.a.	Russian Federation USA China	China United Arab Emirates Singapore	USA Singapore Germany	China Brazil
Italy	China USA Austria	Turkey Bulgaria Spain	China Canada Russian Federation	USA China Austria	France Russian Federation	USA Austria Germany
Japan	China USA Thailand	China USA Brazil	China	China USA Singapore	China USA Mexico	China USA Thailand

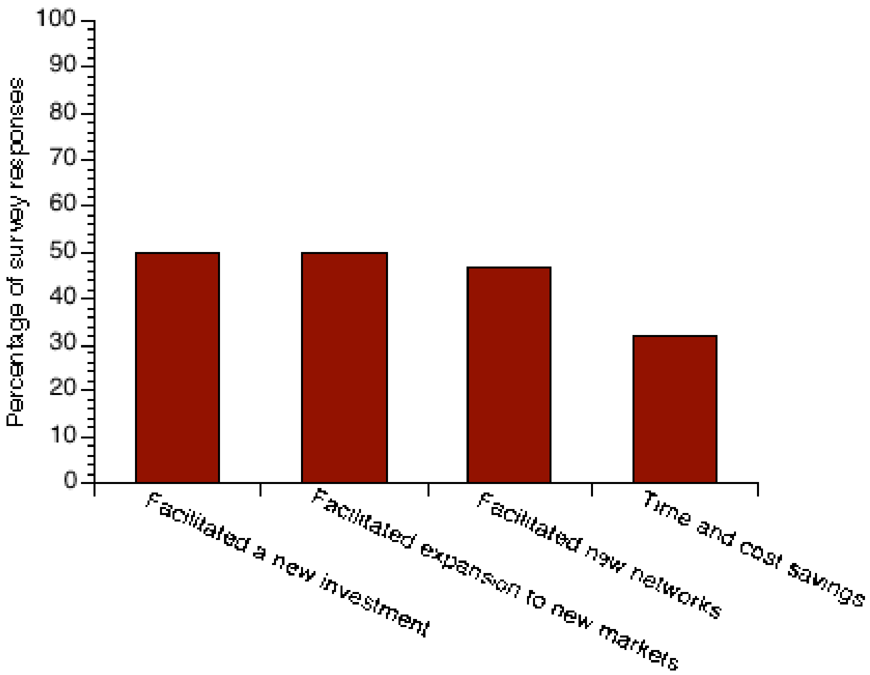
Source Country	Top three destinations - overall	Top three destinations - Agribusiness	Top three destinations - Biotechnology	Top three destinations - Financial Services	Top three destinations - ICT	Top three destinations - Manufacturing
Netherlands	China USA Germany	Brazil Germany United Kingdom	Brazil Chile Singapore	Germany Czech Republic Hong Kong	China Denmark Singapore	USA Belgium
United Kingdom	India USA China	Argentina Germany Russian Federation	Spain USA China	India USA China	India USA China	USA China Mexico
USA	USA India China	USA Russian Federation Argentina	USA China Ireland	USA India United Kingdom	India USA China	USA China Korea

Source: IBM Business Consulting Services Plant Location International 2005, *Half Yearly Investment Review: First half year 2004*, Brussels.

Figure 8.2 shows the outcome that respondent investors believed Invest Australia's involvement had on their project, and are in line with expectations. Consultations with government stakeholders indicate that there may be a greater role for Invest Australia to play in the last category — that of reducing the time and costs faced by foreign investors when considering whether or not to invest, and once that decision is made, with regards to fast tracking the investment.

Figure 8.2

OUTCOMES OF ASSISTANCE FROM INVEST AUSTRALIA



Source: The Allen Consulting Group Invest Australia evaluation business survey.

Some examples of Invest Australia assistance that had the greatest impact on a respondent's project include:

- overall excellent knowledge of government programs and business environment in Australia;
- networking with key individuals in the industry to enable continuous communication between entities on different countries;
- introductions to potential partners and prospective customers;
- detailed industry and market analysis;
- introductions to relevant state-specific organisations; and
- assistance with visas and staff relocation.

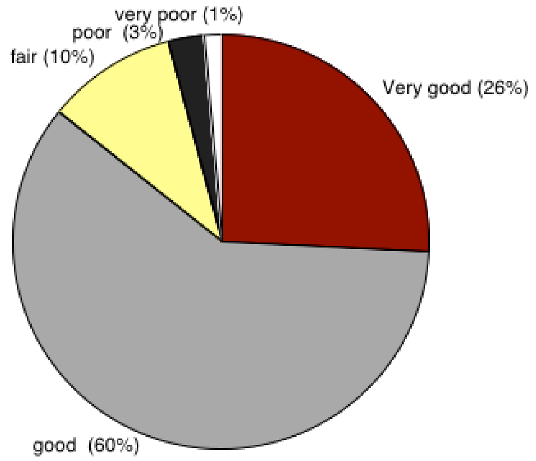
Overall, [Invest Australia has an] excellent knowledge of government programs and business environment in Australia plus local presence in North America, which facilitated face-to-face meetings and communications in local time. Very responsive and eager to help showcase all Australia has to offer.

International firm

Most of the comments from respondents alluded to forms of assistance which reduced search and transaction costs, or which pertained to Invest Australia's expert knowledge of the Australian business and regulatory environment. This function has emerged as a relative strength out of the services offered by Invest Australia.

Figure 8.3

OVERALL PERFORMANCE OF INVEST AUSTRALIA



Source: The Allen Consulting Group Invest Australia evaluation business survey.

Survey respondents indicated that on the whole, Invest Australia's performance in attracting investment to Australia was 'good' (60 per cent), and nearly a quarter of respondents considered that they felt Invest Australia's efforts in this regard were 'very good'.

8.3 Trends across priority sectors

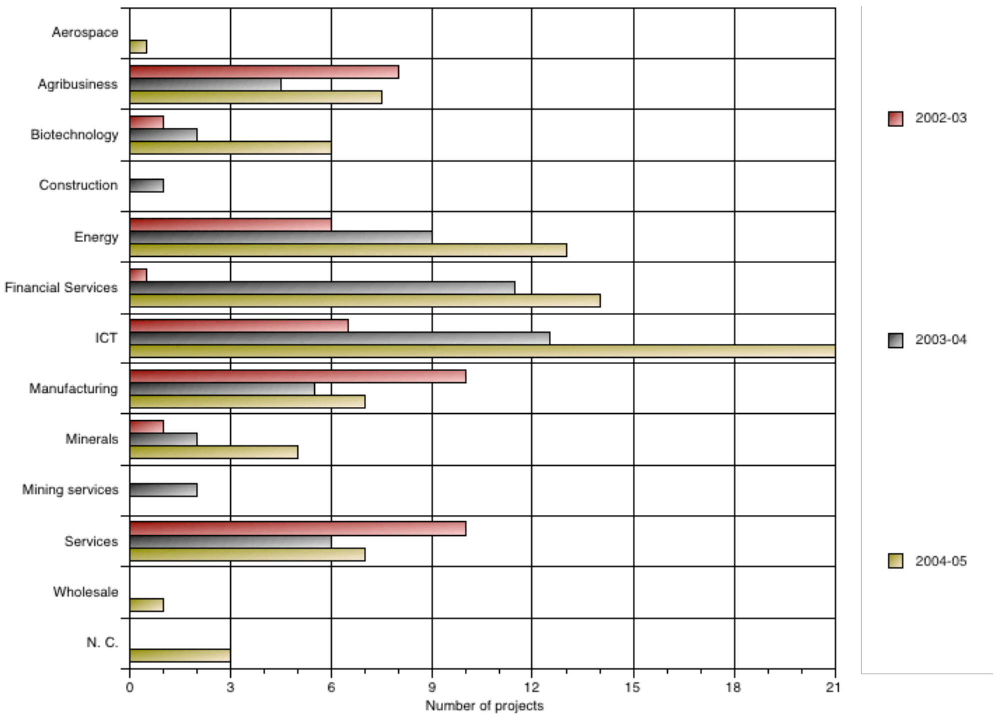
It is difficult to measure trends across priority sectors over time, as there is a dearth of good, detailed information on FDI trends by industry. Additionally, many of the priority sectors identified by Invest Australia — such as biotechnology, nanotechnology and ICT — are enabling technologies that can be applied across a range of industries. For example, there can be confusion as to the extent to which an FDI flow into research on genetically modified crops can be attributed to biotechnology or agribusiness.

Figure 8.4 shows the change in the number of projects attracted to each of Invest Australia's priority sectors over time. There is strong growth evident in the number of biotechnology and ICT projects attracted between 2002-03 and 2004-05, as well as in the value of new and acquisition investment in these sectors. While these sectors represent the greatest number of new projects attracted, the greatest value of new and acquisition investment is shown in Table 8.2. Here, Invest Australia's greatest strengths seem to be in the energy, manufacturing and minerals sectors, the bulk of which is achieved through the Major Projects Facilitation program.

Table 8.3 shows the number of new jobs created through the projects attracted by Invest Australia. As can be seen, the number of new jobs created is far more volatile than the number of new projects or the value of new and acquisition investment. There is strong growth in the number of new jobs created in the ICT sector over the three-year period, and declines in the energy and biotechnology sectors. Contributing to the volatility of total new jobs each year is the lumpiness evident in the number of new jobs in the agribusiness and manufacturing sectors, from one year to the next.

Figure 8.4

NUMBER OF NEW INVESTMENTS ATTRACTED, BY SECTOR



Source: Invest Australia project database 2005.

Table 8.2

VALUE OF NEW AND ACQUISITION INVESTMENTS ATTRACTED, BY SECTOR — AUD$M

Sector	2002-03	2003-04	2004-05
Aerospace	0.0	0.0	0.6
Agribusiness	104.0	259.0	905.0
Biotechnology	5.0	6.4	78.2
Construction	0.0	0.1	0.0
Energy	5 038.3	4 808.0	5 362.2
Financial Services	2.5	68.5	110.5
ICT	26.5	37.1	57.8
Manufacturing	1 640.7	285.1	866.9
Minerals	0.0	1 601.0	3 157.0
Mining services	0.0	0.4	0.0
Services	133.7	25.5	6.6
Wholesale	0.0	0.0	3.9
Not classified	0.0	0.0	70.7
TOTAL	**6 950.7**	**7 090.9**	**10 619.3**

Note: Where an investment is allocated across more than one sector, the value has been distributed equally across the sectors.
Source: Invest Australia project database 2005.

Table 8.3

NUMBER OF NEW JOBS CREATED THROUGH INVESTMENTS ATTRACTED, BY SECTOR

Sector	2002-03	2003-04	2004-05
Aerospace	0.0	0.0	7.5
Agribusiness	530.0	60.0	786.0
Biotechnology	50.0	48.0	40.0
Construction	0.0	3.0	0.0
Energy	1858.0	1391.0	757.0
Financial Services	5.0	310.0	51.0
ICT	133.0	271.0	351.0
Manufacturing	1130.0	181.0	1227.5
Minerals	0.0	100.0	880.0
Mining services	0.0	100.0	0.0
Services	671.0	146.0	179.0
Wholesale	0.0	0.0	5.0
Not classified	0.0	0.0	68.0
TOTAL	**4377.0**	**2610.0**	**4352.0**

Note: Where a job is allocated across more than one sector, the number has been distributed equally across the sectors.
Source: Invest Australia project database 2005.

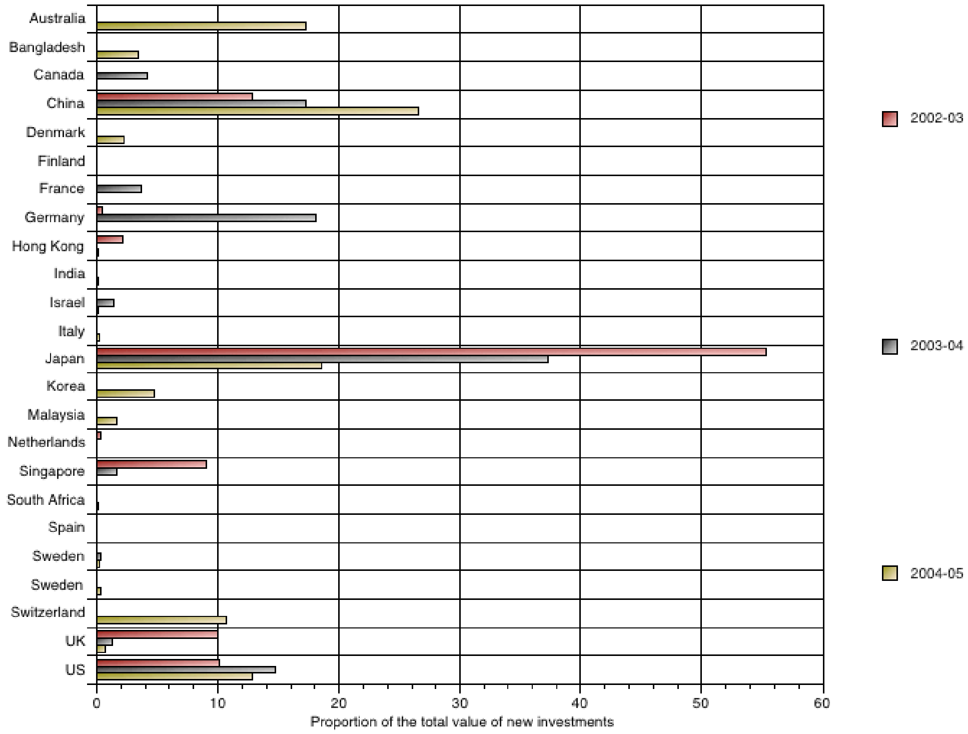
8.4 Trends across priority markets

While Table 8.1 shows that Australia is not one of the top destinations for FDI from many of the major source countries, it is possible to analyse the trends in priority markets within the context of the shifts in composition of the sources of current investments. Figure 8.5 shows the number of new projects attracted, by the country from which the investment was sourced. In terms of the number of new projects, the key markets between 2002-03 and 2004-05 are Japan, China, the USA and the UK, demonstrating that these countries are appropriately targeted because of the higher likelihood of attracting investment.

The number of new projects sourced from China reflects a shift in the off-shore staff in Hong Kong into mainland China. A senior public servant commented that while the move to mainland China increased Australia's profile in that country, that this was done at the expense of investment potential in Hong Kong, and that the investment leads and new projects coming out of China have not made up for the opportunities lost in Hong Kong.

Figure 8.5

NUMBER OF NEW INVESTMENTS ATTRACTED, BY COUNTRY



Source: Invest Australia project database 2005

While it can be seen that the number and value of projects, as well as number of new jobs created, from investments sourced in China has occurred at the expense of investments from Hong Kong (see Table 8.4 and Table 8.5), there is not a long enough time series prior to the move of staff from Hong Kong to China to conclude whether new opportunities in China have made up for any opportunities that may have been lost from Hong Kong.

In relation to this issue, it was further suggested that there needed to be an Invest Australia presence both in mainland China and Hong Kong, and that the offices in mainland China needed to relocate and focus on one or two key regions, rather than attempt to cover all of mainland China.

In terms of the value of new and acquisition investments, the amounts from year to year sourced from different countries are quite volatile, as is the case with Japan, the UK and the USA. The same is true of the number of new jobs created between one year and the next.

Table 8.4

VALUE OF NEW AND ACQUISITION INVESTMENTS ATTRACTED, BY COUNTRY — AUD$M

	2002-03	2003-04	2004-05
Australia	4048.3	2000.0	7792.0
Bangladesh	0.0	0.0	14.0
Belgium	100.0	0.0	0.0
Canada	0.0	2110.8	8.2
China	28.0	338.1	144.5
Denmark	0.0	0.0	9.0
Finland	0.0	0.0	0.4
France	1.0	6.4	16.2
Germany	1.0	31.6	9.1
Hong Kong	4.5	0.0	0.5
India	0.0	0.4	21.3
Israel	0.0	2.5	0.5
Italy	0.0	0.0	1.0
Japan	1415.0	2567.2	174.1
Korea	387.0	0.0	21.0
Malaysia	0.0	0.0	7.1
Netherlands	0.6	0.0	0.0
Philippines	0.0	0.9	0.0
Singapore	19.6	3.0	0.0
South Africa	40.0	0.0	1.3
Spain	0.0	0.0	675.2
Sweden	0.0	0.5	2.5
Switzerland	0.0	0.0	174.7
Taiwan	15.0	0.0	0.0
UK	27.6	3.9	1339.0
USA	863.1	25.7	207.9
TOTAL	**6950.7**	**7090.9**	**10619.3**

Source: Invest Australia project database 2005.

The decline in the value of investments from the UK and the USA could in part be due to investors in these countries being relatively more familiar with Australia or having the requisite knowledge to invest in Australia, whereas Invest Australia and Axiss Australia are required to exert more effort into parts of Europe and Asia in order to tap into the potential there. Figure 8.5 demonstrates that Invest Australia and Axiss Australia have had some success in sourcing investment from these areas.

Table 8.5

NUMBER OF NEW JOBS CREATED THROUGH INVESTMENTS ATTRACTED, BY COUNTRY

	2002-03	2003-04	2004-05
Australia	910.0	55.0	2556.0
Bangladesh	0.0	0.0	25.0
Belgium	60.0	0.0	0.0
Canada	0.0	277.0	50.0
China	160.0	83.0	120.0
Denmark	0.0	0.0	67.0
Finland	0.0	0.0	3.0
France	15.0	129.0	4.0
Germany	10.0	417.0	31.0
Hong Kong	40.0	0.0	10.0
India	0.0	97.0	89.0
Israel	0.0	20.0	28.0
Italy	0.0	0.0	15.0
Japan	1820.0	1353.0	306.0
Korea	111.0	0.0	15.0
Malaysia	0.0	0.0	73.0
Netherlands	15.0	0.0	0.0
Philippines	0.0	20.0	0.0
Singapore	222.0	25.0	0.0
South Africa	68.0	0.0	58.0
Spain	0.0	0.0	21.0
Sweden	0.0	3.0	14.0
Switzerland	0.0	0.0	66.0
Taiwan	30.0	0.0	0.0
UK	241.0	36.0	245.0
USA	675.0	95.0	556.0
TOTAL	**4377.0**	**2610.0**	**4352.0**

Source: Invest Australia project database 2005.

8.5 Key findings

- In the period since Global Returns, Invest Australia recorded an increase in the number of new investments that it has facilitated, on the basis of value.
- Australia remains a relatively small player in the market for global FDI.
- The areas of ICT, biotechnology and nanotechnology remain longer-term prospects, which is to be expected given the nature of these industries and Australia's developing capabilities.
- The priority markets of North America, Europe (primarily the UK, France and Germany) and Asia (primarily Japan and China) have been the major sources of new investments facilitated by Invest Australia. This likely reflects the value of Invest Australia's presence in these markets through their offshore posts.

Chapter 9

Performance indicators for investment attraction

9.1 Linking outcomes to performance indicators

An integral part of running any program — government or otherwise — is providing staff with incentives to meet the objectives of the organisation, and to ensure that there are mechanisms in place to measure and evaluate the performance of the employees, as well as the performance of the program. A central consideration with respect to program design is the selection of appropriate performance indicators to apply to staff as well as to the program.

If performance indicators are not embedded in the context of the program's objectives, it is likely that the program staff will expend their energy on achieving the goals that are directly linked to their promotions or bonuses, rather than to the goals that are the desired outcomes of the program.

The characteristics of good performance indicators or performance measurement information are:

- *relevance* — best achieved when the performance indicator is directly related to clearly stated outcomes and strategies, balanced against the use of inputs, and achievements of outputs and outcomes;
- *accuracy* — best achieved with a combination of qualitative and quantitative performance indicators that are valid and reliable;
- *timeliness* – best achieved when the performance indicator can be obtained in a timeframe that allows management to take quick decisions;
- *accessibility* — best achieved when the performance indicators are in a format that is understood by the user and suits their needs;
- *interpretability* — best achieved when the performance indicators are presented in a way that the user can understand and correctly use the information; and
- *coherency* — best achieved when the performance indicator can be compared against other performance indicators, and can be brought together with other information in a broader performance management framework.[33]

Box 9.1 summarises some of the issues to be considered when formulating performance indicators, and which types are appropriate for internal or external use.

Additionally, the costs and benefits of collecting performance information, and selecting the type of performance information to collect, are also important considerations. As suggested by the Australian National Audit Office:

> The cost/benefit of collecting key data items or improving existing data collections is an important consideration. The benefits arising from the collection of additional or more accurate information should outweigh costs related to the collection, storage and use of the information. To assist in reducing costs and maximising benefits, key performance information relevant to each goal or objective should be identified.
>
> Factors which may need to be considered are:

[33] Australian National Audit Office 2002, *Administration of Grants: Better Practice Guide,* Canberra p. 26.

- the risk that the investment in information collection may not produce long term benefits. In the longer term, policy or program changes may result in performance information becoming inadequate or irrelevant. More commonly, poor data collection processes may render the resulting performance information unreliable and unusable;
- costs associated with the collection, storage and processing of information; and
- the relative collection costs for individual items of performance information. If limited resources are available, and the expense associated with collecting information on one indicator precludes the collection of information on other indicators, a decision may need to be made on alternative information collection strategies.[34]

Box 9.1

DESIGNING APPROPRIATE PERFORMANCE INDICATORS

Input measures

Input measures are generally designed for use within the organisation, rather than for external use. They show the resources consumed by the program, and are analysed in comparison to output measures. Examples of input measures include:

- expenses;
- administrative costs or effort; and
- client or stakeholder feedback.

Output measures

Output measures are linked to the achievements of milestones or operational targets. Examples of output measures include:

- number or value of investments attracted;
- number of leads or enquiries; and
- number of conferences, seminars or targeted interviews hosted or conducted.

Outcome measures

Outcome measures are the hardest to design, and generally need an equal mix of qualitative and quantitative measures. Outcome measures generally relate to changes in the wider community or economy. Examples of outcome measures include:

- improved competition in an industry;
- increased employment, growth, technology up-take or exports; and
- improved status of Australia as an attractive investment location.

Source: Australian National Audit Office 2002, Administration of Grants: Better Practice Guide, Canberra p. 26-27.

9.2 Current key performance indicators

The National Investment Framework operates over the three-year period 2002-05. As the Framework is intended to run for three years, many of the performance indicators set out in *Global Returns* are long-term goals to be assessed over the full three-year period (See Box 9.2).

[34] Australian National Audit Office, *Performance Information Principles, a Better Practice Guide,* http://www.anao.gov.au/WebSite.nsf/Publications/4A256AE90015F69B4A25691B001E1E9F, accessed on 16 June 2005.

Box 9.2

PERFORMANCE INDICATORS SET OUT IN GLOBAL RETURNS

Objective 1: FDI contributes to overall economic growth and industry development in Australia.

- Contribution by multinational corporations to Australian employment, exports, business expenditure on research and development, and strategic alliances.

Objective 2: Australia maximises the benefits of FDI, particularly in terms of the quantity and quality of investment attracted to Australia, the sectors into which it is attracted and the sustainable benefits achieved.

- The number and value of projects attracted that meet the national investment framework's strategic investment project criteria.
- Any re-investment by those multinational corporations.

Objective 3: The messages received by potential investors about Australia are clear and consistent.

- Feedback from overseas stakeholders on Australia's image and positioning as an investment location.

Objective 4: The approach to promoting, attracting and facilitating investment is seamless for potential investors and is carried out in the most efficient and cost-effective manner.

- Feedback from multinational corporations that have invested in Australia.
- Cost comparisons with competitor investment agencies.

Source: Global Returns, p50.

Invest Australia has expanded the objectives and performance indicators from *Global Returns* and particularized them in its Business Plans under four operational headings (see Box 9.3). However, the Business Plan performance indicators are predominantly based on inputs and outputs, with a strong focus on the achievement of annual targets and short-term outcomes.

Invest Australia defines its targets at the start of the year and is now monitoring KPI data more frequently during the year. Normal practice is for KPI targets to grow, reflecting process improvements within organisations. In some cases, 'stretch targets' are set as a means of increasing productivity. In the case of Invest Australia this could be difficult, because there appear to be significant annual fluctuations in FDI worldwide.

Performance against a small group of core indicators (leads, numbers and value of investments, jobs and exports) are a significant factor in determining the remuneration of off-shore Invest Australia staff. This has the benefit of focusing off-shore staff on achieving tangible outcomes. However it also has the effect of encouraging a short-term focus at the expense of important longer term objectives.

9.3 Input from discussions

Some Invest Australia staff posted off-shore see a conflict between the aspirational priority sectors and Invest Australia's core KPIs which measure leads, investments, jobs and dollar value on an annual basis. It is inappropriate to put too much emphasis on purely short-term goals in the context of investment attraction. Such an emphasis is likely to result in less effort in the aspirational priority sectors because it is unlikely that Australia will experience a significant increase in the flow of FDI into these sectors. While Australia may have research strengths in some areas, these are unlikely to attract strong FDI.

Box 9.3

INVEST AUSTRALIA PERFORMANCE INDICATORS – WORK PROGRAM 2004-05

1. To market Australia as a destination for foreign direct investment

Quantitative:

- Number of research reports completed
- Numbers of publications, events, advertisements, e-newsletters, website hits

Qualitative:

- Internal and external stakeholder satisfaction on value/timeliness of research
- Internal and external stakeholder satisfaction with marketing services
- Stakeholder satisfaction with National Marketing Strategy

Cost:

- Total cost per marketing output produced

2. To identify potential investment leads and provide services and support to overseas based investors

Quantitative:

- Number of calls made on potentials investors
- Number of general inquiries received
- Number of presentations at events to raise Australia's profile
- Number of investment leads generated
- Number of site visits by potential investors to Australia
- Number and value of investment successes

Qualitative:

- Satisfaction of clients with service provided
- Satisfaction of stakeholders with level and quality of leads generated

Cost:

- Total cost per investment lead generated and per investment success

3. To attract and facilitate investment into priority industry sectors

Quantitative:

- Number of industry capability documents and case studies produced
- Number of investment leads generated
- Number of investment projects facilitated
- Number of investment successes

Qualitative:

- Satisfaction of Stakeholders with industry marketing strategies
- Internal and external stakeholder satisfaction with quality of industry specific marketing materials
- Timeliness of responses to internal and external investment inquiries
- Satisfaction of investors with quality of services provided

Cost:

- Total cost per marketing material produced and per investment project facilitated

4. To position Australia as a centre for global financial services

Quantitative:

- Number of publications, events, advertisements, e-newsletters and website hits
- Numbers of finance sector investment successes
- Number of presentations to raise Australia's profile

Qualitative:

- Internal and external stakeholder satisfaction on value/timeliness of research
- Satisfaction of internal and external stakeholders with marketing services

Cost:

- Cost per marketing output produced and per finance sector investment success

Source: Invest Australia Business Plan 2004-05

Several off-shore staff of Invest Australia have noted that, at the present time, securing an investment or lead from an investor in one of the aspirational sectors (for example, nanotechnology) appears to carry the same KPI weight as a lead or investment from an investor interested in a sector in which Australia already has a significant share of foreign owned enterprises. As a result, there is little incentive for staff to tackle some of the more difficult areas, or on industries in which Australia has significant potential, but as yet no strong commercial activity.

One of the suggestions on modifying the current performance indicators was with regards to the industries the investments were linked to, and the investors' methods of entry. For example:

> Over recent years the nature of FDI has changed considerably. Companies are now less likely to enter a new market through a greenfield development. In order to help ensure an easier entry to the market, reduce initial investment costs and take advantage of local knowledge, the preference is increasingly for an investment via partnership, collaboration, strategic alliance and acquisition. The current KPIs for Invest Australia could better reflect this reality and the review provides a chance to look at what meaningful and rigorous measures could be introduced that would better capture the changed nature of FDI.
>
> Another change in the profile of FDI in Australia (especially from developed markets) is the importance of service sectors such as the financial services, business services, ICT etc… These projects tend to have a lower level of FDI but introduce a higher level of technology, international linkages and know how to Australia. This is yet to be captured by the current KPIs and again the review provides the chance to refine our measures to better capture the technology benefits of new service based projects.[35]

Another suggestion was that the rate and volume of re-investments could be monitored, in addition to new investments. This is due to the fact that when smaller companies invest off-shore, the initial investment is small since they want to limit their risk exposure. However, if the initial investment is successful, or if the investors become more comfortable in Australia, the investment grows both in size and in value added.

[35] Personal comment from Invest Australia executive in awritten submission to the review team.

Some staff consider there is also the potential to better capture the re-investment that is occurring from companies that Invest Australia has assisted. At present many companies do not receive aftercare service. As a result Invest Australia does not hear about the expansions that the companies undertake or the opportunity to support these companies to bid for additional investment from their international head office. As a result some re-investment opportunities are being missed and others remain unaccounted for.

Invest Australia's KPIs cover a range of inputs, outputs and outcomes. At present some KPIs are given, or are perceived to be given very low weight by Invest Australia management. There is a case for giving more weight to some of the KPIs that encourage effort towards Invest Australia's longer-term goals and aspirational priorities. There is also a case for giving more weight to those leads that are likely to involve larger and more productive investment in Australia as opposed, for example, to leads which at best will result in a small presence to facilitate product distribution in Australia.

9.4 Key findings

- Invest Australia's objectives and KPIs are appropriate.
- Changing the relative emphasis on KPIs away from the core set could encourage staff to increase their efforts towards longer-term objectives.
- Targets should be reviewed annually to ensure that they encourage an increase in outcomes and outputs over time.

Chapter 10

Axiss Australia

Up to this point, discussion and analysis in this report has primarily focussed on the role of Invest Australia in attracting FDI to Australia. It is necessary, however, to recognise the role of Axiss Australia, an agency within Invest Australia that has some differences from the other operations of Invest Australia. Given the differences in the approach of Axiss Australia, and the separation that exists in terms of branding and marketing, it is useful to identify and discuss issues specific to Axiss Australia.

10.1 Axiss Australia's role

Axiss Australia has the objective of positioning Australia as a global financial services centre. Axiss Australia was established in 1999 as the Australian Centre for Global Finance and renamed Axiss Australia in 2000. Up until 2003 Axiss resided with the Commonwealth Treasury, after which time it was moved to become part of Invest Australia. Axiss maintains its own identity and website, and is located in Sydney (as opposed to the majority of Invest Australia staff who are located in Canberra).

Axiss raises the awareness of global firms about Australia's comparative advantages in the financial services. Its activities include:

- producing education and promotional materials which provide information on the financial services sector in Australia. This includes the Axiss scholar programme which places students in top financial services firms for paid work experience;
- working within government, particularly the Treasury, addressing policy and regulatory issues which impact on the financial services sector (with a particular emphasis on barriers to foreign firms); and
- working with Invest Australia's offshore network providing information for financial services firms considering locating in Australia.

10.2 Stakeholder views on the role of Axiss Australia

AXISS does an outstanding job considering its relatively limited resources.

Industry association

It is clear in assessing current information on the activities of Axiss Australia that its approach to supporting the financial services sector is broader than investment attraction and facilitation. Data on new investments show that Axiss has been involved in 22 new investments to Australia since 2002-03. It should be noted that Axiss Australia does have a different mandate to other operations within Invest Australia, and is therefore involved with project that are more focused on industry development (for the financial services industry) rather than new foreign investment projects.

This evaluation sought information on the role and performance of Axiss Australia from organisations within the financial services sector, as well as a sample of firms which had received support from Axiss. In both cases, a strong response was received, supporting the role of Axiss and the ability of its staff.

Within industry organisations there are concerns about the resourcing constraints that Axiss is under, and acknowledgement that the staff of Axiss do an excellent job considering the small size of the organisation. Industry would like to see Axiss have a stronger international presence (through international conferences and other events), though it is acknowledged that this is difficult given resourcing constraints.

There was strong acknowledgement of the role that Axiss plays in policy development, particularly through its relationship in the Treasury portfolio. This is noted in box 10.1 in relation to those aspects of Axiss Australia that had the greatest impact. It was also noted by several industry stakeholders in submissions as being a key benefit of Axiss for the financial services sector. This role is referred to in chapter 4 of this report as 'policy advocacy'.

We believe that AXISS also plays a key role in policy development such as the recent changes to Capital Gains Tax (CGT). We have estimated that such a change will attract some $15 billion worth of capital to Australia.

Industry association

Box 10.1

ASPECTS OF AXISS AUSTRALIA SUPPORT WITH THE GREATEST IMPACT

In the survey for this evaluation, firms were asked what aspect of the support that they received from Axiss Australia had the greatest impact. The following comments were provided:

'The provision of information and the facilitation of the introduction to the Consul General in NYC'.

'The team's help in identifying and arranging meetings with potential investors in Japan'.

'Information on state of security statistical data and analysis'.

'Willingness to help us build contacts and networks'.

'Comparative data provision to assist the business case preparation'.

'Connections with government for influencing policy to make Australia more attractive as an import/export centre. I think Axiss has helped the government appreciate the issues related to attracting and retaining foreign companies'.

'Industry data and industry knowledge of Axiss Australia staff'.

'Were it not for the assistance by Axiss and their contacts at Treasury level in Canberra to achieve some changes to law etc. we would have found it very difficult to justify completing the process. We are very grateful for the assistance provided by Axiss'.

We are concerned that the core focus of AXISS has been subsumed within the Invest Australia agenda. Whilst the two portfolios are aligned the core focus on AXISS and the concept of an Australian global financial services centre needs to be reproduced and clarified and not blurred by the Invest Australia role.

Industry association

There was also strong recognition of the value of the Axiss brand, which is considered to be well established and recognisable within the sector. There are concerns that the merger of Axiss Australia with Invest Australia may lead to a loss of this identity. There were further concerns about the role of Axiss Australia being 'captured' by the focus of Invest Australia activities, which industry stakeholders consider is quite different to the role that Axiss Australia has performed successfully for the industry. These differences include a greater focus on providing educational materials and policy advocacy.

10.3 Key findings

- Axiss Australia has been very successful operating as an agency which provides specialised services to a particular sector. Its staff are recognised as having very strong industry knowledge.
- Axiss Australia has excellent linkages with the financial service sector, and provides a policy advocacy role for the industry in working with government agencies and regulators to remove barrier to foreign investment in the financial services sector.
- There is strong recognition of the Axiss brand, which is well established within the sector.

- There are concerns over reduced staffing numbers in the agency since the merger with Invest Australia, and the impact of this reduced capacity on the ability of the agency to continue to service the sector.

Part C

Efficiency of Invest Australia operations

Chapter 11

Budget, staffing and resources issues

11.1 Current funding of Invest Australia and its operations

As discussed, Invest Australia provides a wide range of services, and the intensity of the service delivery ranges from generic delivery suitable for Australia as a whole, to more focussed, targeted delivery, aimed at achieving an end with respect to a particular industry or region. Obviously, there is some subjectivity when it comes to allocating importance to or ranking the different services, and one of the ways of analysing this implicitly is through the analysis of budget data, to develop an understanding of which areas receive the most resources.

Looking at the resources allocated to different areas within Invest Australia (see Appendix A), there are a number of major funding reallocations, as well as inflows of funding for new priorities. Examples of these include:

- additional funding due to the addition of Axiss Australia to Invest Australia's operations in 2003-04 (approximately $3.8 million for both 2003-04 and 2004-05);
- a reallocation of funding in order to increase focus on attracting re-investment ($238 029 allocated for 2004-05);
- additional temporary funding for the purpose of administering the South Australian Structural Adjustment Fund (approximately $2 million allocated for 2004-05); and
- discontinuation of the funding allocated to the Strategic Investment Coordinator. While the SIC process is still supported by Invest Australia, in 2004-05, no funding was allocated for a Strategic Investment Coordinator, as the position is currently vacant.

In addition to major reorganisations and changes in function, the budget data provided by Invest Australia identifies the resources allocated to attracting investments from the priority sectors and priority markets discussed in previous chapters. For example, the shift in focus from Hong Kong and Taiwan to mainland China is clearly evident (see Table 11.1).

Performance of offshore offices

Based on the data provided, it is possible to obtain a measure of the efficiency of the different offshore Invest Australia offices. A simple indicator of comparative efficiency can be obtained from the ratio of the funding allocated to an office and the number or value of projects generated by that office over time — a ratio of inputs to outputs.

Table 11.1

ALLOCATION OF OFFSHORE RESOURCES ($AUD)

IA Office	2002-03	2003-04	2004-05
Beijing	138 102	116 724	262 569
Singapore	228 825	230 896	228 177
Hong Kong	702 447	76 296	0
Taipei	146 371	260	0
Shanghai	276 790	696 101	973 752
Frankfurt	929 273	1 063 517	991 205
Paris	198 366	395 215	484 981
London	333 823	378 363	359 000
New York	517 635	672 300	532 030
San Francisco	930 679	1 202 762	1 220 001
Tokyo	959 177	1 026 997	1 215 100
TOTAL	**5 361 488**	**5 859 431**	**6 266 815**

Source: Invest Australia internal data

This analysis is hampered by the volatility inherent in the flow of FDI between one year and another. It is difficult to ascertain whether a change in the output-to-input ratio is low because of the performance of the office, or because of a wider, global trend or shock. In a similar vein, the efforts in attracting an investment in one year may not be recognised until the investor confirms their intent — which may happen in a subsequent year, or accounting period. All of these factors affect the measures of efficiency, as can be clearly seen in the estimates for Tokyo and Paris, in Table 11.2.

I think Invest Australia does the best it can with limited resources…and high staff turnover — probably best initiative would be to seek ways of attracting and retaining experienced staff.

International firm

This analysis of the efficiency of the offshore offices also does not take into account the number of staff in an office, or the mix of levels of staff seniority in each office. Staff seniority is relevant as senior staff members are paid more than junior staff, but are more experienced, have a wider network and more contacts, and are likely to operate more efficiently because of this experience. The number of staff in each office is also relevant, as consultations with offshore staff have indicated that there are significant scale economies to be exploited from having more than one person in some of the offshore offices.

Table 11.2

OFFSHORE OFFICE PERFORMANCE MEASURED IN TERMS OF VALUE (AUD$1) OF NEW INVESTMENTS PER AUD$1 FUNDING ALLOCATION

	2002-03	2003-04	2004-05
Beijing	0.0	171.3	386.6
Singapore	88.3	25.6	31.3
Hong Kong	35.6	0.0	0.0
Taipei	0.0	0.0	0.0
Shanghai	10.8	14.5	9.2
Frankfurt	1.1	32.1	63.5
Paris	5.0	5.6	1394.6
London	65.5	6.2	99.4
New York	9.9	14.4	7.6
San Francisco	7.5	17.9	46.6
Tokyo	1445.0	65.4	159.7
TOTAL	**276.1**	**29.5**	**183.1**

Source: The Allen Consulting Group, using data provided by Invest Australia

Some of the smaller offices may have experienced a decline, or may not be performing as efficiently as they otherwise could, because they suffer from a number of problems associated with their small office status, including:

- there being no-one else to answer the phone, or attend to the office if officers are called away, as well as a lack of administrative, analytical and facilities support; and
- officers having the amount of time available to perform their core functions reduced by having to expend energy on administrative tasks (‘ordering stationery, and changing light-bulbs’ were examples identified through consultations with offshore staff).

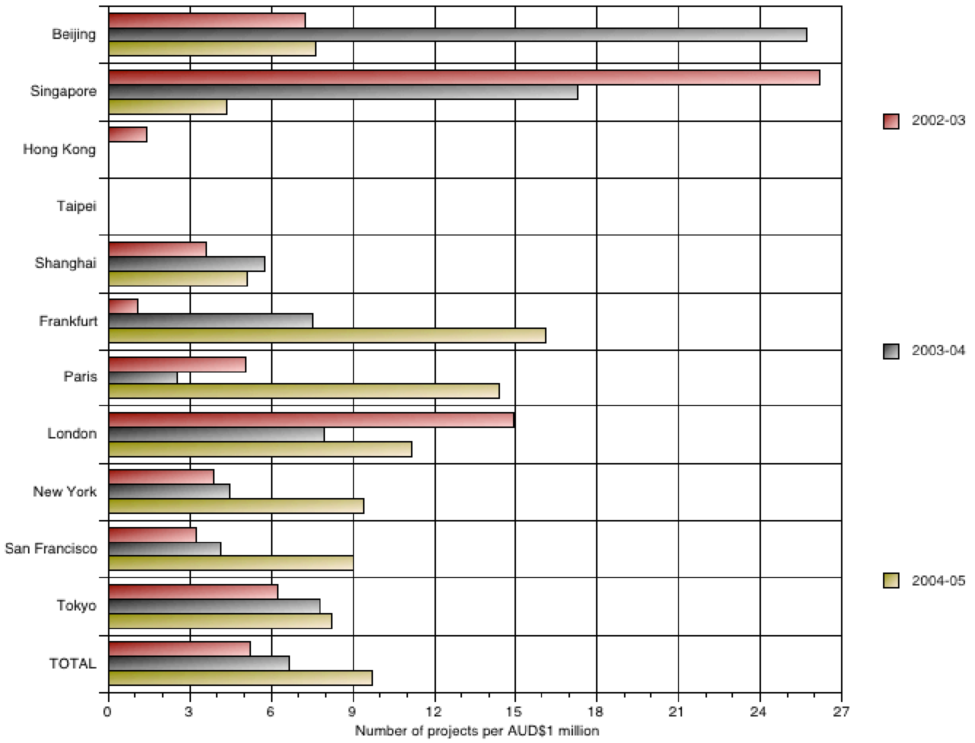
There are other issues that need to be considered, when analysing the performance of the offshore offices, including:

- the approach used to engage with potential investors and interest them in Australia is likely to vary from country to country. For example, in the UK, almost 30 per cent of the business the London office does is from clients who come to them. In other countries, it is necessary for Invest Australia staff to spend more effort on finding potential leads and then engaging potential investors with a view to attracting them to Australia; and
- the variation in the cost of doing business between each of the offshore locations. For example, the cost of doing business in New York is likely higher than in San Francisco, and is likely to vary even more widely between countries.

Overall, however, the offices exhibit an improvement in efficiency over time, which is also supported by analysing the number of projects attracted for every AUD$1 million in funding, as shown in figure 11.1.

Figure 11.1

OFFSHORE OFFICE PERFORMANCE MEASURED IN TERMS OF NUMBER OF NEW INVESTMENTS PER A$1 MILLION FUNDING ALLOCATION



Source: The Allen Consulting Group, using data provided by Invest Australia

Consultations with the offshore staff revealed a similar theme with regards to the way that Axiss Australia conducted its offshore activities. While there was considered to be little justification to have more full-time Axiss Australia representatives, it was suggested that better results could be achieved if the funding that Axiss Australia allocated to travelling to and spending a few weeks in each of the countries was instead spent on the off-shore offices themselves, which could provide representation for Axiss Australia and achieve better value for the same amount of money.

Performance of priority sector teams

When considering the efficiency of the different priority sector areas, it should be noted that while roughly half of the Invest Australia staff are directly dedicated to priority sectors, they are strongly supported by other Invest Australia teams, such as marketing, and the offshore offices. Additionally, the ability of staff to attract investment in the priority sectors depends on a number of factors, including:

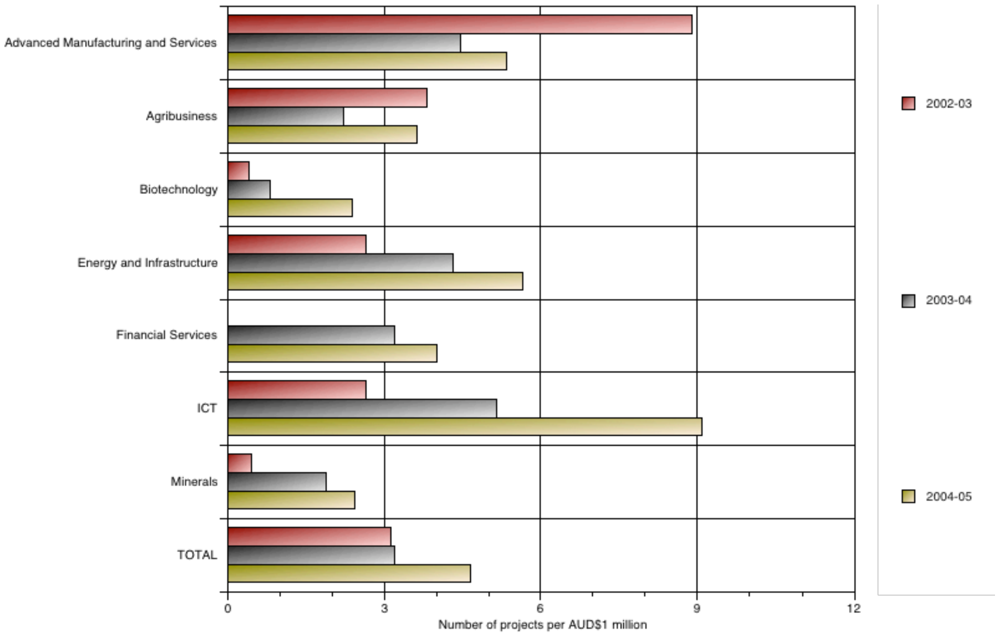
- the volatile nature of FDI flows in general;
- the way in which Australia is perceived overseas with regards to each of the priority sectors;
- the fact that staff in the resources team, for instance, are disproportionately involved in supporting the SIC program, compared to staff from other teams;
- the fact that staff from the different teams are also heavily engaged in the MPF and SSP programs;

- the extent to which some investments need assistance compared to others; and
- the difficulty in allocating successes to different teams and priority sectors.

Nevertheless, it is possible to conduct a rough efficiency analysis of the teams assigned to the priority sectors over time, and in comparison to one another as long as these limitations are kept in mind. The same outputs-to-inputs ratio that was used for the offshore offices is used in this analysis.

Figure 11.2

PRIORITY SECTOR PERFORMANCE MEASURED IN TERMS OF NUMBER OF NEW INVESTMENTS PER AUD$1 MILLION FUNDING ALLOCATION



Source: The Allen Consulting Group, using data provided by Invest Australia

Figure 11.2 shows the shift in efficiency allocation of resources to the priority sectors over time, measured in terms of number of new investments attracted per AUD$1 million of funding, and Table 11.3 shows the value of the new investments attracted per Australia dollar of funding. There are consistent efficiency improvements in biotechnology, financial services, ICT, energy and minerals. These effects could be due to the teams assigned to these areas becoming more experienced, expanding their network and contributing to improved performance.

Table 11.3

PRIORITY SECTOR PERFORMANCE MEASURED IN TERMS OF VALUE (AUD$1) OF NEW INVESTMENTS PER AUD$1 FUNDING ALLOCATION

	2002-03	2003-04	2004-05
Advanced Manufacturing and Services	771.5	120.2	333.9
Agribusiness	49.5	127.7	373.3
Biotechnology	2.0	2.5	30.8
Energy and Infrastructure	2215.9	858.9	2317.0
Financial Services	0.0	19.0	31.6
ICT	10.7	15.2	24.9
Minerals	0.0	747.7	1534.6
TOTAL	**500.7**	**243.0**	**596.2**

Source: The Allen Consulting Group, using data provided by Invest Australia

11.2 Staffing

There are a number of important staffing issues that were discussed by several stakeholders in consultations. Most prominent were views that there are significant benefits to be achieved through increasing the numbers of offshore staff. This is an issue that has been mentioned consistently throughout this report in various discussions on the value of the offshore network and attraction and facilitation services that it provides.

Table 11.4 provides a breakdown of onshore and offshore Invest Australia staff over the last three years. The data show that, while the total number of offshore staff has increased, this is in line with overall growth in the organisation (in part due to the addition of Axiss Australia).

Table 11.4

INVEST AUSTRALIA STAFFING

	August-02	May-03	May-04	May-05
Total Staff numbers	**95**	**96**	**119**	**119**
Onshore total	76	78	91	93
Offshore total	19	18	28	26
Europe	*6*	*6*	*7*	*7*
North America	*3*	*3*	*8*	*8*
North East Asia	*5*	*4*	*5*	*5*
China South East Asia	*5*	*5*	*8*	*6*

Source: Invest Australia internal data

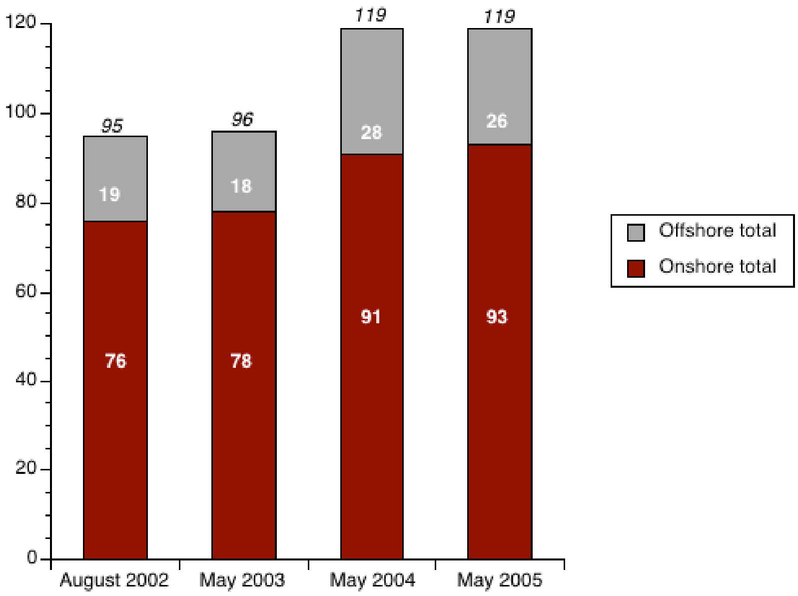
Figure 11.3 provides the trend in the total staffing numbers for Invest Australia, including the breakdown between onshore and offshore staff. This figure shows the large majority (78 per cent) of Invest Australia staff are located in Australia. This ratio of offshore to onshore staff is considerably lower than that of Austrade, and is also lower than that of some of the larger State and Territory investment promotion agencies. As one stakeholder commented, the 'teeth to tail' ratio of Invest Australia appear to be out of balance, with greater emphasis needing to placed on offshore activities.

I felt the Embassy in the UK were helpful however they needed more support from Australia in responding to customers and what they really needed to get out of meetings in Australia.

European firm

Figure 11.3

INVEST AUSTRALIA STAFFING, 2002-2005



Source: Invest Australia data

Offshore staff often face administrative and operational problems related to being located in small offices, sometimes isolated from other Australian Government agencies that could provide support. The overall lack of administrative support for offshore staff was consistently commented on during consultations. Co-location[36], most typically with Austrade, is considered to be a beneficial arrangement for Invest Australia staff in smaller offices. In those offices where there was no co-location, there are significant problems related to telephone support. Given the importance of offshore staff at the forefront of Invest Australia's interactions with potential investors, it is essential that these operational issues be dealt with effectively.

A further issue raised by offshore staff was the opportunities available to them to travel back to Australia. These are current considered to be fairly limited, which staff noted was at time a disadvantage for them in dealing with overseas investors who expect that they will be very familiar with Australia. One offshore staff member noted that the some investors had noted to them that they had travelled to Australia more recently that the Invest Australia staff. There is also the related issue of offshore staff having access to the same training opportunities as onshore staff.

[36] Co-location here is used to describe the situation in which office facilities and administrative support are shared between Invest Australia, and another organisation.

For this evaluation, Invest Australia was keen to emphasise the importance of onshore staff in providing research and analytical support to offshore staff, therefore freeing up offshore staff time to focus on spending time with clients.

11.3 Key findings

- There is a strong argument for increasing the proportion of offshore staff in the organisation, given the role of offshore staff at the forefront of Invest Australia's interactions with potential investors.
- In relation to offshore staff, co-location with other government agencies could provide the currently lacking administrative support in some locations.

Part D

Findings and Recommendations

Chapter 12

Evaluation findings

In the course of this evaluation, the review team has drawn relevant information and views from a wide range of sources. The review team has evaluated these inputs to draw a number of conclusions, which can be found throughout this report. They are presented together in this chapter for ease of reference.

The role for government in investment attraction

- There is a clear role for governments to assist in attracting FDI through providing information and facilitation services to potential investors.
- Governments need to provide information on 'country level' attributes, such as economic indicators, which potential investors value, but that is unlikely to be provided by the private sector.
- Government promotion and marketing is also likely to benefit domestic firms that find the costs of finding foreign investors prohibitive.
- Given the importance of the business environment in foreign investment decisions, there are potential gains in government investment promotion agencies working with other government agencies to address regulatory or administrative barriers to FDI.
- The current role of Invest Australia is appropriate given the identified information asymmetries for FDI. The recent marketing and branding strategies are an improved approach, as they are the appropriate tools in addressing the information barrier to FDI for Australia.

Coordination between government agencies

State and Territory coordination –

- There is strong support at all levels of government for the role of Invest Australia as the lead agency in marketing and promotion at a national level.
- In order to get sufficient buy-in from the States and Territories in relation to the National Investment Brand, there needs to be further consideration of the use and value of sub-brands — an area where some States and Territories have concerns.
- The offshore network of Invest Australia is considered to be an asset for States and Territories, and is an area where relationships could be strengthened further.
- In relation to Invest Australia's facilitation role; there remain concerns over the process of passing on leads to jurisdictions. This is an area where there needs to be clearer identification of the role of Invest Australia, and the value that it is adding to the process.

- Given Invest Australia's limited resources, the States and Territories should be encouraged to play a stronger role in providing on-shore assistance for re-investment. However it is recognised that re-investment provides major opportunities for increasing FDI and that where interstate expansion or decision making by foreign parent companies are involved, Invest Australia has a role to play.

Commonwealth agency coordination –

- There has been strong progress in the coordination and cooperation between Invest Australia and Austrade since the implementation of the changes recommended in Global Returns.

Appropriateness of priority sectors and markets

- In setting priority sectors for investment promotion, attraction and facilitation, it is essential that there is a clear recognition of the underlying government objectives for targeting specific sectors over others.
- There is scope to use priority setting to target sectors where the government is seeking growth, or sees strong potential for the future (such as new technology sectors). In this case, the approach to promotion and attraction needs to be tailored to take into account the lower level of awareness of capabilities in these sectors.
- The current priorities for ICT and biotechnology refer to very broad sectors that have evolved considerably since Global Returns was released. In order for Invest Australia resources to be used most effectively, there is scope for a narrowing of the focus to sub-sectors within these broader classifications.
- The nature of priority setting means that there are opportunity costs of not attending to non-priority sectors in any significant capacity. Since Global Returns some sectors have emerged as being 'strong performers', where there are good potential gains through Invest Australia support.
- The current priority markets are appropriate given the current sources of FDI, as well as a focus on the emerging market for FDI in China.
- Further review of the opportunity costs of a lack of focus in Middle-East and India is warranted, to ensure that the current approach continues to be appropriate.

Relative effectiveness of promotion, attraction and facilitation roles

- The renewed emphasis of the marketing and promotion role for Invest Australia, through initiatives coming out of *Global Returns* has strong support from most stakeholders, and is seen as a key role for Invest Australia.
- The current National Investment Brand, while recognised as a valuable tool, needs to be reassessed to consider the appropriateness of the Technology Australia terminology and the use of multiple sub-brands, which have the potential to dilute the message.
- There is currently a low awareness and recognition of Australia as a country with strong capabilities and comparative advantages in technology sectors.

- There is evidence that the current generic marketing activities, primarily through advertisements in business advertising, is effective in prompting potential investors to think of Australia, and has been shown to improve reader's perceptions of Australia as an investment location.
- The value of the offshore network in investment attraction and facilitation is clearly acknowledged by all stakeholders, with a consistent emphasis on the value of relationships with potential investors.
- While it is acknowledged that there it is not appropriate to have a 'one size fits all' approach to promotion, attraction and facilitation in different markets, having staff offshore is considered essential for all markets. There is little evidence to support the suggestion that some markets can be serviced by marketing and promotion alone.

Impact of FDI flows

- In the period since Global Returns, Invest Australia recorded an increase in the number of new investments that it has facilitated, on the basis of value.
- Australia remains a relatively small player in the market for global FDI.
- The areas of ICT, biotechnology and nanotechnology remain longer-term prospects, which is to be expected given the nature of these industries and Australia's developing capabilities.
- The priority markets of North America, Europe (primarily the UK, France and Germany) and Asia (primarily Japan and China) have been the major sources of new investments facilitated by Invest Australia. This likely reflects the value of Invest Australia's presence in these markets through their offshore posts.

Performance Indicators

- Invest Australia's objectives and KPIs are appropriate.
- Changing the relative emphasis on KPIs away from the core set could encourage staff to increase their efforts towards longer-term objectives.
- Targets should be reviewed annually to ensure that they encourage an increase in outcomes and outputs over time.

Axiss Australia

- Axiss Australia has been very successful operating as an agency which provides specialised services to a particular sector. Its staff are recognised as having very strong industry knowledge.
- Axiss Australia has excellent linkages with the financial service sector, and provides a policy advocacy role for the industry in working with government agencies and regulators to remove barrier to foreign investment in the financial services sector.
- There is strong recognition of the Axiss brand, which is well established within the sector.
- There are concerns over reduced staffing numbers in the agency since the merger with Invest Australia, and the impact of this reduced capacity on the ability of the agency to continue to service the sector.

Budget and staffing issues

- There is strong argument for increasing the proportion of offshore staff in the organisation, given the role of offshore staff at the forefront of Invest Australia's interactions with potential investors.
- In relation to offshore staff, co-location with other government agencies could provide the currently lacking administrative support in some locations.

Chapter 13

Recommendations

The major finding of this review reflected in Chapter 12, is that there is a clear and well-supported case for Invest Australia, including Axiss Australia, being a continuing program of the Australian Government. There is a continuing rationale for government involvement and the role of Invest Australia remains appropriate. There is a continuing need for investment promotion and Invest Australia is achieving the goals set out in *Global Returns*.

The review has identified a number of issues where improvements would enhance Invest Australia's performance. This is the subject of recommendations listed below.

- Invest Australia should further develop its cooperation with State and Territory agencies with the objective of improving the timeliness and depth of communications as well as the overall effectiveness and division of labour between the two levels of government.
- The respective roles of Invest Australia and its State and Territory counterparts in re-investment should reflect the comparative advantages of States and Territories onshore and Invest Australia offshore, while recognising that inter-state expansion and offshore decision making justify an involvement by Invest Australia.
- Invest Australia should review its current branding and sub-brands with a view to simplifying the branding, reducing the numbers of sub-brands and responding to the feedback from stakeholders.
- Invest Australia's broad marketing strategy has been effective but there is a need to move to more sector-specific marketing to address particular information needs, especially in the priority sectors.
- There would be benefits from narrowing the focus of the priority sectors to ensure that Invest Australia effort is directed to projects that offer the best overall returns. In addition, priority areas that offer better prospects such as agribusiness should be given a higher profile.
- The facilitation role of Invest Australia is the key to investment success and should be maintained and strengthened. Invest Australia cannot rely on marketing alone to achieve its objectives.
- The Axiss Australia brand has strong recognition in the financial services industry and should be maintained. Axiss' role is important and effective and merits additional resources.
- Invest Australia should increase the numbers of its offshore staff. These staff are at the forefront of Invest Australia's efforts to identify potential new investment. Increasing their numbers and support has the potential to significantly increase Invest Australia's performance.
- Support for offshore staff should be enhanced through increased cooperation with Austrade and DFAT and, in particular, co-location with Austrade (where co-location involves sharing of administrative services and support).

- Offshore staff should be given more opportunities to visit Australia for training, site visits and familiarisation opportunities (eg biotechnology conferences).

Part E

Appendices

Appendix A

Invest Australia budget data

Table A.1

INVEST AUSTRALIA BUDGET DATA

	2002-03	2003-04	2004-05
ICT	$2,465,379	$2,438,033	$2,311,601
Biotechnology	$2,541,249	$2,509,037	$2,534,644
Advanced Manufacturing and Services	$2,246,735	$2,584,330	$2,615,950
Minerals	$2,172,085	$2,140,444	$2,055,890
Energy and Infrastructure	$2,273,709	$2,329,780	$2,293,521
Agribusiness	$2,100,943	$2,028,103	$2,073,211
Financial Services	$0	$3,598,620	$3,497,022
Unallocated	$749,106	$229,593	$2,061,541
Advertising	$2,057,933	$1,491,708	$2,858,300
Total	**$16,607,137**	**$19,349,648**	**$22,301,680**

Source: Invest Australia budget data.

Appendix B

Terms of Reference

The objective of the study is to rigorously examine and evaluate the appropriateness, effectiveness and efficiency of Invest Australia and its operations, and to prepare a comprehensive, detailed and high quality report outlining these findings, as well as where improvements could be made to increase efficiency and effectiveness. It will examine the operations of Invest Australia (which includes Axiss Australia), including how it has performed against the goals outlined in Global Returns. The evaluation will examine the historical performance of Invest Australia since 1997 and will consider the administration, marketing and programs of Invest Australia since July 2002.

The report will examine the appropriateness of Invest Australia and its activities. This will involve describing the community need and/or objective identified and agreed by the government at the time of the program's initiation and establish:

- The nature and extent of any continuing community need or problem that needs to be addressed;
- Alternative strategies available to address the need or problem, and any implications for future delivery of the program; and
- The likely consequences of not addressing the need or problem.

In examining appropriateness, the report will also identify any related or similar state government programs and establish:

- The extent to which the identified community need is addressed by the state government program;
- The degree of any overlap between the Commonwealth and state programs; and
- The potential for integrating or aligning the Commonwealth and state programs.

The report will examine the effectiveness of Invest Australia and its operations. It will do this by identifying the Government outcome(s) to which the program contributes, how this links to the objectives specifically defined for the program at its inception, and address:

- The program's achievements against current performance indicators;
- The extent to which the program achieved desired impacts (objectives) for the community (whether the program addresses the need or problem);
- Any unintended consequences (positive or negative);
- Linkages between the lapsing program and other programs both within and outside the portfolio, their relative effectiveness in addressing the need or problem, and the scope for rationalization or greater integration;
- Adequacy of the existing performance indicators relating to the effectiveness of the program; and
- Where these indicators need to be improved if the program continues.

The report will examine the efficiency of Invest Australia and its operations. It will provide evidence of the program's efficiency, namely:

- The extent to which departmental and program inputs have been minimized, or outputs maximized, in achieving the program's intended products and services;
- The impact of the program on costs borne by the community, clients and other governments; and
- Trends over time in the ratio of administrative to program costs.

The report will indicate where there could be improvements and/or simplifications to increase the efficiency and effectiveness of Invest Australia.

The report will also address the following specific issues in regards to Invest Australia:

- Invest Australia's performance against the objectives outlined in Global Returns;
- The effectiveness of marketing activities;
- The appropriateness of the industry sectors and target markets currently selected;
- The relative effectiveness of promotion and facilitation in target markets;
- The impact of Invest Australia's dual role of undertaking proactive work as well as providing reactive services, on its effectiveness as a whole;
- The adequacy of Australia's efforts in investment attraction, especially in relation to the activities of competitive capital importing countries; and
- Issues associated with Key Performance Indicators, including:
  - The appropriateness of current indicators and whether they are realistic;
  - Definitions used to determine successful investments; and
  - Follow up of investment decisions.

The report will consider the extent to which Invest Australia has influenced the quantity and quality of investment attracted into Australia and delivered value for money. It will do this in a qualitative manner, which will involve but not be limited to including a number of case studies of examples of "footloose" investments in which Invest Australia had involvement. These case studies will examine what role Invest Australia had in securing the investment.

The report will reflect on the success of Invest Australia's activities in its priority industry sectors, including looking at (but not limited to) the attraction of projects in those sectors.

The report will briefly examine the relative economic impacts of investment in these priority sectors in the context of the global economy and the changes occurring in its sectoral makeup.

Appendix C
Consultations

C.1 Government interviews

The following tables provide a list of government contacts with whom the review team consulted for this study.

Table C.1
STATE GOVERNMENT CONSULTATIONS

Location	Organisation	Name
Perth	Department of Industry and Resources	Ross Marshall
Hobart	Department of Economic Development, Investment Attraction Division	Mark Sayer
Darwin	Office of Territory Development Investment Attraction Division	Brian O'Gallagher
Melbourne	Invest Victoria Department of Innovation, Industry & Regional Development International Investment Division	Ben Foskett Peter Collens
Adelaide	Strategic Projects Invest South Australia	Manuel Ortigosa
Sydney	Department of State & Regional Development, Investment Division	Bob Johnson Warwick Glen
Brisbane	Department of State Development, Investment Division	John Strano
Canberra	Department of Economic Development	Jeff Keogh, Shane Gilbert

Table C.2

COMMONWEALTH AGENCY CONSULTATIONS

Organisation	Name and position
Department of Agriculture, Fisheries and Forestry	Daryl Quinlivan, Exec Manager, Fisheries and Forestry Division
Department of Communications, Information Technology and the Arts	Rod Badger, Deputy Secretary Information Economy Dr Beverly Hart, Chief General Manager Information and Communications Technology Division
Department of Foreign Affairs and Trade, Trade, Development Division	Stephen Deady, 1st Assistant Secretary - Trade & Development Division Mark Pierce, Assistant Secretary, Market Development, Business Liaison and Regional Trade Policy
Department of Industry, Tourism and Resources	Mark Paterson, Secretary
Foreign Investment Review Board C/o Department of the Treasury	Roy Nixon John Hill
Department of Immigration and Multicultural and Indigenous Affairs, Business Branch	Bernie Waters, Assistant Secretary, Business Branch
Department of Transport and Regional Services	Michael Taylor, Secretary
Department of Education, Science and Training	Graeme Cook, Deputy Secretary
Department of Prime Minister and Cabinet	Jenny Goddard, Deputy Secretary Godwin Grech, Industry, infrastructure & Environment
Department of the Treasury	Ken Henry, Secretary Kruno Kukoc, Manager, Industry Policy Unit
Department of Finance and Administration, Industry, Education and Infrastructure Division.	Susan Page, Division Manager, Industry, Education and Infrastructure. John Angley, Branch Manager, Education, Science and Industry Branch
Austrade	Peter O'Byrne, Managing Director Kirsten Sayers, State Manager (Victoria)

Table C.3
INVEST AUSTRALIA AND AXISS AUSTRALIA CONSULTATIONS

Name	Role
Garry Draffin	Chief Executive Officer
Barry Jones	Executive General Manager
Keith Maxted	General Manger, Marketing and Research
Michael Schwager	General Manager (currently in Frankfurt office)
Mark Durrant	General Manager, Resources
Kathy Harman	Acting General Manger, Technology, Manufacturing and Services Industries
Gary Johnston	General Manager, Axiss Australia
Robert Hunt	Senior Investment Commissioner, North America
Nicola Watkinson	Senior Investment Commissioner, Europe
Maso Miyairi	Senior Investment Commissioner, North Asia
Julia Zhu	Senior Investment Manager, China and South East Asia
Henry Wang	Senior Investment Commissioner, China and South East Asia

C.2 Industry associations

Table C.4 provides a list of those industry associations or organisations that provided comments for this evaluation.

Table C.4
INDUSTRY ASSOCIATIONS CONSULTED

Organisation	Consultation
Australian Industry Group	Written submission
Australian Information Industry Association	Interview
AEEMA	Written submission
Ausbiotech	Interview
Australia Industry and Defence Network	Interview
Australian Venture Capital Association	Written submission
School of Banking and Finance, University of New South Wales	Written submission
Medicines Australia	Written submission
CPA Australia	Written submission
Department of Accounting and Finance, Faculty of Business and Economics, Monash University	Written submission
Australian and New Zealand Institute of Insurance and Finance	Written submission
Australian Computer Society	Written submission
Investment and Financial Services Association	Written submission

C.3 Business survey

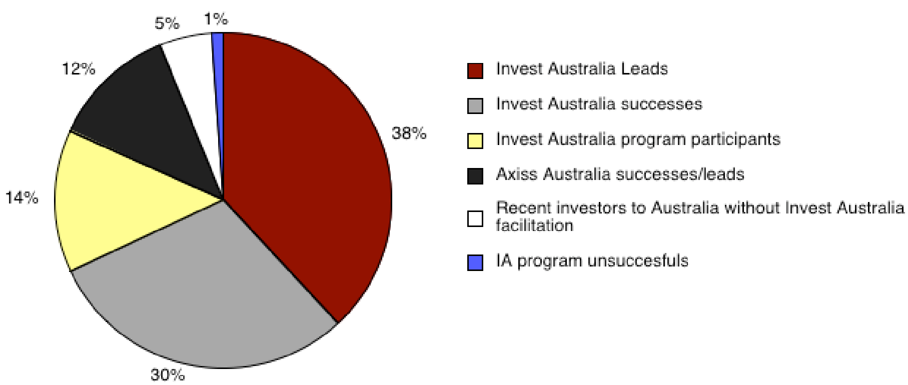
For this evaluation, an email survey of investors was conducted. Surveys were sent to:

- firms who had recently invested in Australia without using Invest Australia's services;
- firms who had recently invested in Australia with support from Invest Australia;
- firms who have participated in an Invest Australia program, and a small number of firms who had unsuccessfully applied for Invest Australia program support; and
- Firms who have received support, or who are currently receiving support from Axiss Australia.

A total of 77 survey responses were received, which represented a 34 per cent response rate. Some firms contacted did not wish to comment on Invest Australia because they did not feel that they had had sufficient contact with Invest Australia to make a judgement. For those investments that occurred two or three years ago, there were also difficulties in getting a response due to out of date contact details, or where the contact has moved on.

Figures C.1, C.2 and C.3 provide an indication of the sample of responses received, on the basis of type of respondent, sector and country of origin.

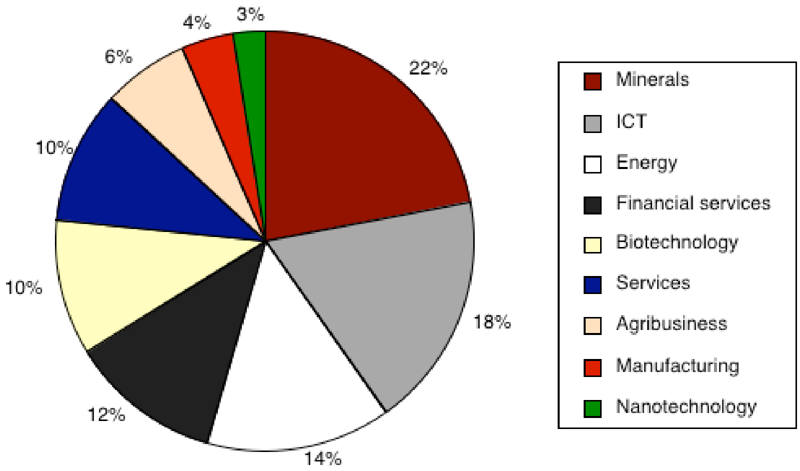
Figure C.1
SURVEY RESPONSES BY TYPE (PERCENTAGE)



Source: The Allen Consulting Group Invest Australia evaluation business survey

Figure C.2

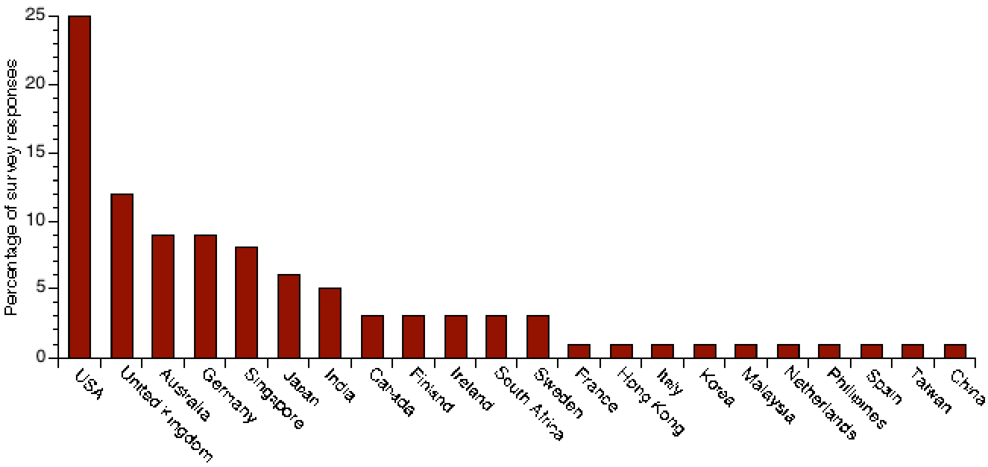
SURVEY RESPONSES BY PRIORITY INDUSTRY (PERCENTAGE)



Source: The Allen Consulting Group Invest Australia evaluation business survey

Figure C.3

SURVEY RESPONSE BY COUNTRY (PERCENTAGE)



Source: The Allen Consulting Group Invest Australia evaluation business survey

Appendix D
Key initiatives of Global Returns

Table D.1
KEY INITIATIVES OF GLOBAL RETURNS

Overarching issue	Initiatives
1. Trends in foreign direct investment	• More comprehensive and credible information on trends in global and Australian investment flows will be sought, particularly at the level of sectoral FDI flows.

2. Strategic direction	• Invest Australia will ensure investment promotion and attraction activities are targeted towards priority industry sectors that reflect Government objectives, industry needs and market conditions.
	• In-house desktop research and analysis will be supplemented by specifically commissioned market research to provide more comprehensive and credible information on Australia's industry capabilities and strengths, the drivers of investment decision-making and the benchmarking of Australia against its competitors in respect of the ICT, biotechnology and nanotechnology industries. This research will be coordinated through the National Investment Research Group.
	• Central to the strategic direction of the national investment framework is the need for different emphases on investment promotion, attraction and facilitation depending on the needs of different industry sectors. Invest Australia will:
	  • provide primarily investment facilitation services for the mining and energy sectors, including the LNG sector;
	  • continue to provide facilitation services to potential investors in all other sectors;
	  • develop and implement extensive promotion and attraction strategies in the ICT, biotechnology and nanotechnology sectors;
	  • undertake limited promotion activities for the renewable energy, environment, light metals, and
	  • forest and wood products sectors, subject to the provision of detailed industry capability information; and
	  • support, where appropriate, the investment-related activities of other Government agencies and industry organisations in the heavy engineering and infrastructure, spatial information, film, food and finance industries.
	• Invest Australia will promote in relevant markets the Government's VC tax concessions and the investment opportunity presented by the Australian VC industry.
	• Axiss Australia's activities will be reviewed before June 2004 with consideration being given to their subsequent absorption by Invest Australia.
	• Invest Australia will seek a whole-of-nation approach to the national investment framework's sectoral priorities through the National Investment Advisory Board (NIAB), the Industry and Technology Ministers' Council and industry consultations.

3. Market and resource priorities	• Invest Australia's initial presence in global markets will be as follows:
	  • North America – six staff spread across New York,
	  • San Francisco and possibly Chicago;
	  • Europe – six staff spread across Frankfurt, London and Paris; and
	  • Asia – 11 staff spread across Tokyo, Taipei, Hong Kong, Beijing, Shanghai and Singapore.
	• Invest Australia's overseas presence will be rebalanced over time to reflect the importance of the United States, Europe and Japan as sources of foreign direct investment.
	• Existing resources will be supplemented with short-term secondments and visits to explore potential in new markets, to pursue particular investment opportunities or to provide additional support for high profile investment events.

4. Marketing	Invest Australia will establish a National Marketing Group to develop and implement a

	rolling three-year marketing plan to position Australia as a competitive investment destination. Invest Australia will drive the development of an Australian investment brand, supported initially by the following generic messages about Australia's attractiveness as an investment destination: 1. strong economic credentials; 2. a democratic and politically stable location; 3. a highly skilled and multicultural workforce; 4. a cost-competitive location; 5. sophisticated telecommunications and information technology systems; 6. an innovative culture with excellent R&D infrastructure; 7. an open and efficient regulatory environment; 8. strategic time zone advantages; 9. a welcoming attitude to foreign investment; and 10.excellent quality of life. • Invest Australia will develop and implement industry-specific marketing plans focusing on the priority industry sectors of ICT, biotechnology and nanotechnology. • Invest Australia will develop a range of promotional materials, including a flagship publication, industry specific capability documents, testimonials of foreign investment success stories, presentation materials and publications providing information for investor on issues such as business costs and regulations taxation, industrial relations and immigration. • Invest Australia will seek to facilitate a nationally coordinated approach to Australia's participation at major investment-related events. • Invest Australia will redevelop its external website as an interactive marketing tool and maintain an effective internal website for information dissemination. • Invest Australia will engage in targeted sponsorship and advertising opportunities that are cost effective and that extend market reach. • Invest Australia will seek to leverage Ministerial overseas travel to promote Australia as an investment destination. • • Invest Australia will develop and implement an integrated communications strategy to raise the profile of Australia as an investment destination. • Invest Australia will commission market research to provide more comprehensive and credible information on effective promotional channels.
5. Lead generation	• Invest Australia will implement a two-pronged approach to company targeting based on the strategic investment needs of Australian industry (including the investment needs of regional Australia) and the market intelligence of overseas networks. • Invest Australia will prepare company-specific presentation material to assist its overseas network to effectively target companies. • In partnership with stakeholders, Invest Australia will implement agreed protocols for the development and distribution of Foreign Investment Lead Summaries and Foreign Investment Briefs. • In partnership with stakeholders, where appropriate, Invest Australia will develop Australian Investment Lead Summaries to provide overseas networks with early intelligence on potential investees in Australia. • Invest Australia will develop and implement an Investment Client Management System to effectively monitor contact with clients and to assist with company targeting activities. • In cooperation with the States and Territories and industry, Invest Australia will coordinate site visits for overseas companies with a demonstrated interest in investing in Australia. • Where resources permit, Invest Australia will work in partnership with stakeholders to conduct inward and outward missions to help generate investment leads. • Invest Australia will, in partnership with stakeholders, build on business-matching activities at major investment related events.
6. Government programs and	• Invest Australia will position itself as a first stop on the investment facilitation continuum, providing an initial point of contact for Commonwealth Government

services	approvals and directing investors to other relevant Commonwealth, State and Territory and local government agencies. • Invest Australia will revamp the Major Project Facilitation (MPF) service for eligible project proponents to align with the strategic direction of the national investment framework. • Invest Australia will work with the Department of Immigration and Multicultural and Indigenous Affairs to consider options for introducing an Invest Australia Supported Skills Program (IASSP) to provide foreign investors with special immigration status for key expatriate employees. • Invest Australia will enhance its corporate knowledge systems to provide staff with access to up-to-date information on the range of Commonwealth Government programs and assistance measures available to potential investors. • Invest Australia will work with the Strategic Investment Coordinator to ensure the SIC process reflects the strategic directions and priorities of the national investment framework. • Invest Australia will analyse options for streamlining assessment procedures under the SIC process to help secure strategic FDI with relatively short lead times. • Invest Australia will promptly refer information on risks of disinvestment to relevant Commonwealth and State and Territory agencies.
7. National Leadership and partnerships	• Invest Australia will assume a leadership role in the implementation of the national investment framework. • The Employment and Infrastructure Committee of Cabinet and the Industry and Technology Ministers' Council will provide political-level oversight of the ongoing development and implementation of the national investment framework. • Invest Australia will chair a National Investment Framework Inter-Departmental Committee (NIF IDC) to assist the development of a whole-of-Government approach to investment attraction. • Invest Australia will work in partnership with the NIF IDC to ensure the efficient allocation of resources for investment-related research, particularly research on industry capabilities. • A National Investment Advisory Board (NIAB) will be established to coordinate Commonwealth and State and Territory investment attraction activities. • Invest Australia will use the Department of Foreign Affairs and Trade's overseas network primarily for high-level representational duties. To foster closer links between the two organisations, a new set of principles for future cooperation will be established to specify the roles and responsibilities of the department's posts, areas of cooperation with Invest Australia and effective reporting mechanisms. • As part of its general responsibilities Austrade will provide Invest Australia with an inward investment referral service. • Invest Australia will, as appropriate, forge strategic research alliances with the private sector to obtain investment-related information necessary for efficient and effective investment attraction activities. • Invest Australia will examine mechanisms for gaining advice from the private sector on a regular basis and seek opportunities to partner with the private sector in investment promotion and attraction activities. • Invest Australia will chair a Commonwealth and State and Territory National Investment Research Group to coordinate a whole-of-Government approach to investment-related research and analysis. • Invest Australia, with the Australian Bureau of Statistics, will explore options for obtaining an enhanced disaggregation of FDI inflows to Australia by market and priority sectors.
9. Delivering on the national investment framework	• The Government has appointed a high-profile Chief Executive Officer to provide vision and leadership to enable Invest Australia to fulfil its mission. • Invest Australia has released a Corporate Plan for 2002-03 which articulates clearly its mission, • objectives, major activities and performance indicators for the year. • Invest Australia will ensure consistency in its corporate identity, including logo, branding and other marketing collateral. • Invest Australia has developed a client service charter to codify the organisation's commitment to excellence in service delivery. • Invest Australia will measure its performance against a range of quantity, quality and

cost indicators.

- The Commonwealth Industry Minister will table a Investment Outcomes and Objectives Statement in Parliament every three years, to review the strategic direction and performance of Invest Australia and the national investment framework.

Source: *Global Returns: The National Strategic Framework for Attracting Foreign Direct Investment,* accessed from http://www.investaustralia.gov.au.

Appendix E

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