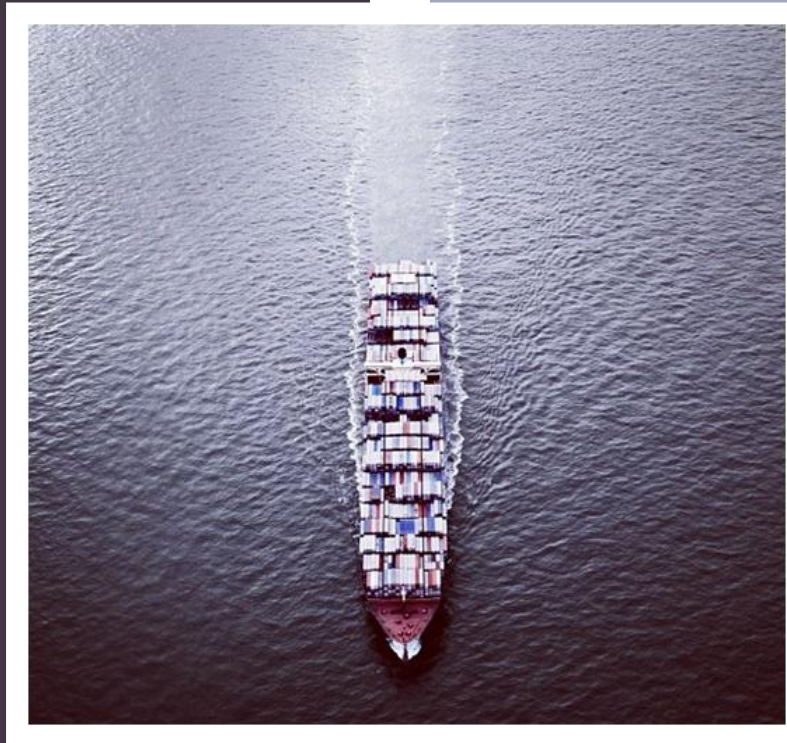


# DESTINATION CYMRU

*A Vision for Inward  
Investment and  
Investor Aftercare*





Cover photo courtesy of [www.flickr.com/maerskline](http://www.flickr.com/maerskline), April 2012  
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# Nick Ramsay AM

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## Shadow Minister for Business, Enterprise and Technology

Nick was first elected to the National Assembly in 2007 and has held a number of Shadow Ministerial roles, including the Local Government and Finance briefs.

He currently chairs the Business and Enterprise Committee, and has overseen numerous inquiries into issues such as apprenticeships in Wales, integrated public transport and the regeneration of town centres.

Nick is the Chair of Cross-Party Groups on Biodiversity and Waterways. He is also Deputy Chair of the Science and Technology Group.



# Foreword

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**By Adam Breeze, inward investment specialist**

## **> Beyond Fluffy Red Dragons**

There was a time, not too long ago, when Wales was synonymous with inward investment. The Welsh Development Agency (WDA) was one of the most visible players, both around the UK and in the wider world. Wherever there was a major business conference or an international trade show, you'd usually find fluffy red dragons, the simple but successful, 'freebie' of choice for the WDA. Nowadays, the fluffy dragons are virtually extinct and the WDA is three more letters on the government acronym landfill site.

As someone that has lived and breathed inward investment for the last 25 years, I'm obsessed with finding out what attracts new jobs and investment. For many years, I watched every country and most regions and cities in Europe, plough money and resources into inward investment. The results were mixed. Each location has very different strengths and weaknesses, so it was always practically impossible to answer the question - "Do inward investment agencies make any difference?" What was needed was a control experiment whereby one location suddenly dismantled its inward investment agency, so we could monitor the impact... enter Wales!

It may be too simplistic to conclude that Wales ceased to be a successful inward investment location because it scrapped the WDA. However, whilst there are many other contributory factors at play, there is a clear correlation between having proactive agencies, and attracting good levels of new jobs and projects. We must separate the really important bits of

WDA work, from the things that didn't add very much value. Whilst some in Wales bemoan the demise of the WDA and call for its reinstatement, I believe that a more thoughtful approach is contained in this paper. In particular, the focus on investor development (or 'aftercare') offers a potential way forward for the country, without having to resurrect the rather bloated machinery of the WDA.

### **Changing Landscape of Inward Investment**

The inward investment landscape gets more complicated and more competitive by the day. In the first 20 years of the WDA there were only a handful of locations that were actively seeking inward investment – today, virtually every town, county, city and country in the world has an inward investment agency. Since the WDA's demise, Scottish Development International and Invest Northern Ireland have expanded their teams and extended their global activities. In England, initially through Regional Development Agencies and now Local Enterprise Partnerships, major city-regions such as Manchester, Birmingham, Leeds, Sheffield and Newcastle are becoming more active in their pursuit of inward investment.

There is also an increasing desire for businesses to look for locations that not only offer the best grants, incentives and sites – but those that are seeking to strengthen existing supply-chains. Whilst this activity is related to sector initiatives currently underway in Wales, it needs to be more formally organised through a meaningful investor development programme. The work to bolster automotive supply-chains across the West Midlands and North West of England offer important lessons for Wales, as firms are increasingly opting to locate there, in spite of the much higher incentives being offered in Wales.

## **No link between fame and fortune**

Locations are very keen to be seen waving their flag in far-flung exhibition halls and setting up offices from Boston to Bangalore, but does it actually make much difference? After years of studying this, I can conclude that it does no harm; but it's certainly not a priority. When it comes to inward investment, there is simply no correlation between fame and fortune. Being well-known sounds like a pre-requisite for attracting lots of jobs and projects – in reality it accounts for very little. Take Liverpool, globally famous for decades. The city that produced The Beatles in the sixties to the all-conquering football team of the eighties and nineties. Did that fame translate into inward investment success? No.

On the other side of the coin, take the Thames Valley. Places like Reading, Slough, Maidenhead and Staines. Not exactly what you would call aspirational place brands, but each one an absolute hotbed of inward investment activity. Businesses are attracted there because of business reasons – proximity to London and Heathrow; clusters of technology firms; quality workforce and so on. Cisco and Microsoft executives didn't bang their boardroom tables and shout "We must be in the Thames Valley!" It runs against the grain of logic, but money spent on raising a location's profile does very little to attract inward investment.

## **Embracing Private Sector Support**

When a company chooses to locate or expand in Wales there are dozens of new supplier relationships and business deals done locally that benefit everyone from local accountants and lawyers through to furniture suppliers and window cleaners. It is important to recognise these commercial benefits when looking at the funding and organisation of inward investment and investor development support.

The idea that inward investment agencies should be 100% funded by the public sector is an out-dated one. The paper highlights the example of Invest in Nottingham and the 250 local businesses that help fund FDI activities. Nottingham is not alone. Similar corporate membership schemes are flourishing in Derby, Hull, Liverpool, Reading and many other cities around the UK. Embracing commercial support not only makes financial sense, but it has a dramatic impact on performance. Inward investment and investor development teams that have private sector support, whether financial or in-kind, tend to deliver more relevant and ultimately more added-value than those that are government-funded.

### **Making the (fluffy) Dragon Roar Again**

There can be no doubt that Wales has lost its way in inward investment. The country once had a global reputation for business based on the ability of the WDA to seek out ambitious companies around the world and deliver smart solutions that brought thousands of new jobs to Wales. Times have changed and new challenges require new solutions. Wales needs to refocus on its business fundamentals. It needs to develop a clearer proposition to answer the “Why Wales?” question. A robust examination is required of existing investors and how they relate to each other – understanding and strengthening supply-chains should be at the heart of a new approach. Investor aftercare should be more than just popping in for a coffee once a year; it must get to the heart of future business needs around suppliers, customers and workforce.

I believe that this paper gives a much-needed boost to the inward investment debate in Wales and that a new approach that leverages in private sector support, develops the Welsh offer and focuses on growing existing and future businesses is the right way forward.

**Adam Breeze is the founder of Breeze Strategy ([www.inwardinvestment.co.uk](http://www.inwardinvestment.co.uk)), the inward investment and place marketing specialists. He has advised dozens of national, regional and local governments around the world and has been involved in more than a hundred inward investment projects, including BMW, Capital One, Pfizer and Marks & Spencer. In previous roles, Adam was National Head of Inward Investment at English Partnerships. He has recently worked with UK Trade & Investment and several cities including Manchester, Sheffield, Nottingham, Leeds, Milton Keynes and Newcastle.**







# Executive Summary

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‘Destination Cymru’ details Welsh Conservative proposals for inward investment. We believe that the importance of investor ‘aftercare’ has been neglected in Wales for too long. Between 1998 and 2008, 171 foreign-owned sites closed in Wales, with the loss of 31,000 jobs<sup>1</sup>. We must ensure that we retain investment for the long-term success of the Welsh economy.

This policy document presents three main recommendations for inward investment policy in Wales,

- **Recommendation 1: Wales must have a comprehensive aftercare programme delivered in partnership with the private sector.**
- **Recommendation 2: Establish a private sector ‘Investment Council’ which would work with the Welsh Government Trade and Inward Investment Team to attract and develop inward investment.**
- **Recommendation 3: The Welsh Government must establish a clear set of ambitious targets for its inward investment operations.**

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<sup>1</sup> P Evans, R Holtz and A Roberts, *Empirical investigation of FDI in Wales*, Welsh Assembly Government Research Unit, 2008.

These recommendations would be achieved through a reorganisation of the Welsh Government Trade and Inward Investment Team which would ensure that investor aftercare was part of the department's remit. The reorganisation would also involve clear targets for investment and the development of a private sector led 'Investment Council' which would work with the Welsh Government to deliver and retain inward investment in Wales.

Aftercare services can be delivered in a cost effective manner as they rely on personnel and business relationships with the private sector rather than grants and funding. This is about being clever and efficient with inward investment.

Welsh Conservatives believe that inward investment in Wales is in need of reorganisation and regeneration with investor aftercare, private sector involvement and clear targets being core aspects of this change.

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# Introduction

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Foreign Direct Investment (FDI) is essential for a modern economy to develop and thrive. In this global race we must ensure that Wales does not get left behind. Foreign investment is not just about large multinational companies setting up factories in Wales; it is a much more complex and multifaceted aspect of the economy which must be supported and sustained to ensure long term growth.

Wales has struggled to remain competitive in a fast paced global market which relies on efficiency, incentives and a proactive approach to global investment. Wales is continually behind Scotland and England in attracting FDI and, whilst there has been some improvement in the last year, the Welsh economy of today seems a lifetime away from the success it enjoyed throughout the 1990s.

Welsh Conservatives have brought forward ambitious ideas for stimulating the domestic economy and supporting indigenous businesses in Wales. Through both our high street regeneration strategy and access to finance proposals, 'Invest Wales', we have outlined comprehensive plans for supporting Welsh business. We believe that this strategy must be complemented by an equally ambitious examination of inward investment ensuring that we support local businesses as well as promoting the potential for FDI. We recognise it is essential to attract foreign investment into Wales in order to create a diverse, innovative and globally competitive economy.

‘Destination Cymru’ details Welsh Conservative proposals for FDI. We believe that the importance of investor ‘aftercare’ has been neglected in Wales for too long. Whilst it is important to attract new investors the potential for long-term economic development is stifled if we offer little incentive to keep businesses in Wales. We believe that Wales must have a comprehensive aftercare programme delivered in partnership with the private sector.

Chapter 1 will outline the background of FDI in Wales and offer an analysis of the current state of affairs. It will also look at investor success stories which must be promoted as ‘best practice’. Chapter 2 will explain the importance of effective investor aftercare drawing on the example of Invest Northern Ireland. Chapter 3 examines private sector involvement in FDI and explores several examples including the model of Invest in Nottingham. Chapter 4 will detail Welsh Conservative proposals for an effective investor aftercare programme delivered in partnership with the private sector.

As a spokesperson for the Welsh Government’s Economy Minister noted in 2011, “Business, enterprise and inward investment, is a devolved matter”<sup>2</sup>; we therefore have the opportunity to make a significant difference to the Welsh economy through FDI and we believe this document provides a clear way forward for FDI in Wales.

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<sup>2</sup> WalesOnline, *Calls for Welsh Government to consider sacking economy minister Edwina Hart*, June 2011

# Chapter 1 – FDI & Wales

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Foreign Direct Investment is crucial to the long term success of the Welsh economy. Recent figures show an improvement with 67 foreign investment projects coming to Wales in 2012/2013 compared to just 23 in the previous year.<sup>3</sup> Whilst any improvement is welcome we cannot afford to be complacent, particularly considering the low base from which this performance was delivered.

The chart on the next page provides a regional breakdown of foreign direct investment projects since 2005/2006.

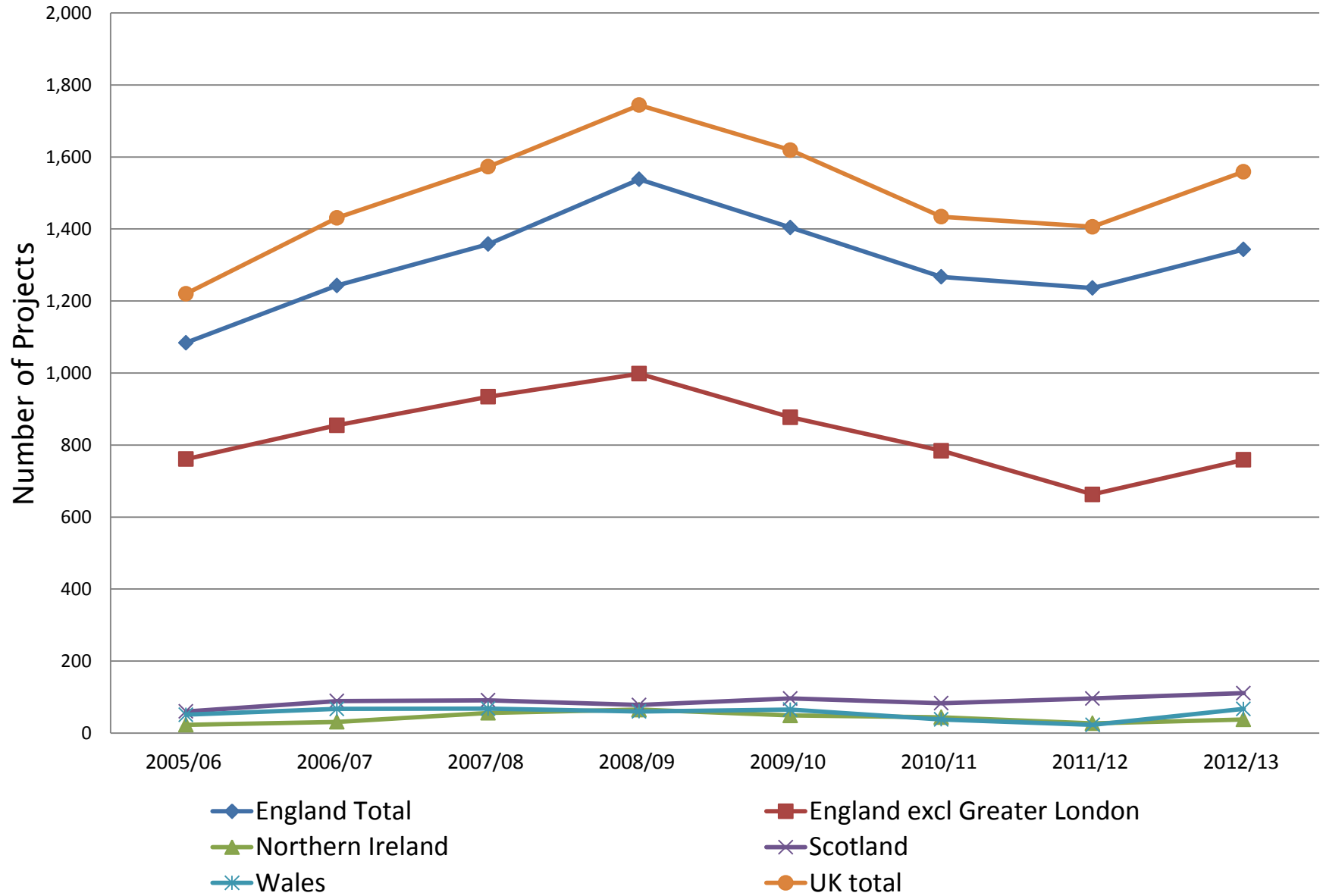


Photo courtesy of communityfriend.co.uk

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<sup>3</sup> UKTI *Inward Investment Annual Report 2012/2013*

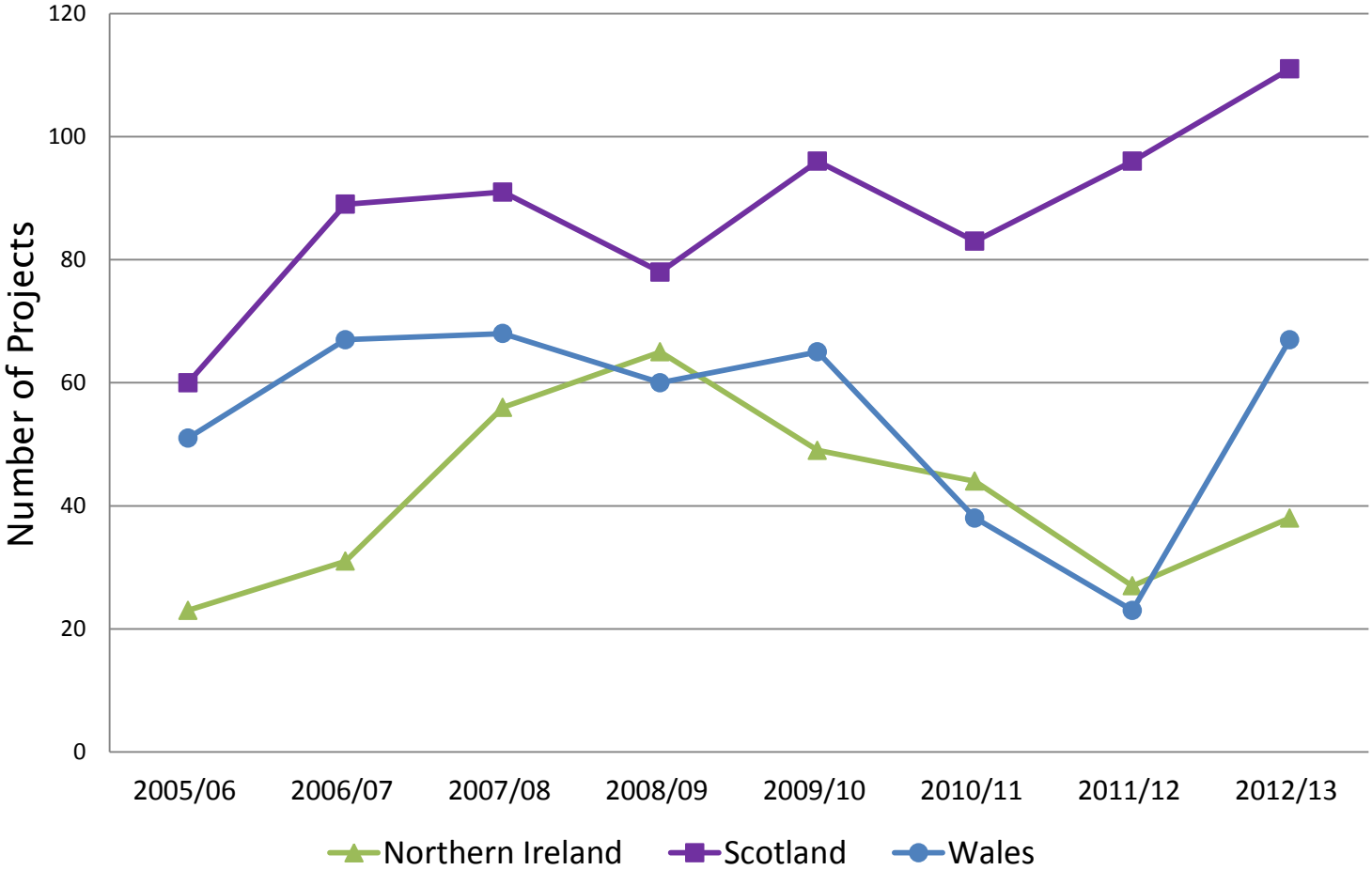
### Chart 1 - Foreign Direct Investment Projects





The chart below expands on Chart 1 showing in detail FDI projects for Northern Ireland, Scotland and Wales. A table of the statistics are found in Appendix A.

**Chart 1.1 - Northern Ireland, Scotland & Wales**



## Decline of FDI

In the 1970s and 80s Wales attracted a steady stream of inward investment from countries such as the USA, Germany and Japan. Wales offered a package of incentives to companies looking to locate, including grants, low labour costs and land for development. Between 1979 and 1991 foreign investment in Wales accounted for over 14% of the UK total, despite less than 5% of the UK population living in Wales.<sup>4</sup>

However, by 2004 several Central and Eastern European countries had joined the EU offering lower costs to potential investors. Wales was unable to compete and inward investment went elsewhere. Inward investment in Wales was seen as a simple, short term package of cheap land and low labour costs. There was little deviation from this standardised package and consequently the development of a long term strategy was ignored. Dr John Ball, Lecturer of Economics at Swansea University, described the situation as “employment at any price”<sup>5</sup> and argued that policies had concentrated on the provision of employment to the detriment of self-sustaining growth.

Wales failed to adapt to the changing global market place and was not providing innovative inward investment offers. Since 2006, the Welsh share of UK investment projects has fallen well below earlier figures ranging between 3.4% and 4.6%.<sup>6</sup> Wales has become one of the worst performing areas of the UK in terms of FDI. This has not only

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<sup>4</sup> *Written Evidence 17 Welsh Affairs Select Committee, David Blackaby, Stephen Drinkwater, Philip Murphy and Catherine Robinson, School of Business and Economics, SERC, WELMERC, WISERD, January 2012*

<sup>5</sup> *Welsh Affairs Select Committee Report: Inward Investment, January 2012, p.9*

<sup>6</sup> *Welsh Affairs Select Committee Report: Written Evidence from UKTI, Ev 187, January 2012*

been detrimental to new growth but meant that the full economic benefits of earlier investments have not been realised.

The decline of Wales as a destination of choice for foreign investors has not however affected the position of the UK as the most favoured location in Europe for inward investment. In 2012-2013 the UK secured 1,559 investment projects helping to create 59,153 new jobs and safeguard a further 110,943.<sup>7</sup> The decline in inward investment into Wales has also coincided with impressive results elsewhere in the UK, most notably in the North West, West Midlands and Scotland.

### **Welsh Development Agency**

Foreign Direct Investment was previously under the remit of the Welsh Development Agency (WDA) which was established in 1976 and remained active until 2006. The role of the WDA was to further the economic and social development of Wales and to promote efficiency in business and international competitiveness. The WDA 'International Directorate' was the team charged with securing inward investment projects for Wales. The Directorate had a dedicated website called 'Locate in Wales' and employed 114 staff. In 2004-2005 its budget for 'Foreign Direct Investment' was £6.5 million and the budget for 'Supply Chains and Networks' was £6.7 million<sup>8</sup>.

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<sup>7</sup> UKTI presentation to National Assembly for Wales, 25 September 2013.

<sup>8</sup> Assembly Research Service, *Welsh Development Agency: structure and functions*, p.21.

In July 2004 the First Minister announced that the WDA, as well as the Wales Tourist Board and the National Council for Education and Training, would cease to be Assembly Sponsored Public Bodies (ASPBs) and that their work would be transferred to the Government by 1 April 2006. Following the abolition of the WDA the responsibility for inward investment was transferred to International Business Wales (IBW) which was established by the Welsh Government. The IBW ceased to exist in 2010, a decision influenced by the Massey Review which was highly critical of the work of IBW.

Whilst the WDA was described by many, including a former WDA Chief Executive Sir Roger Jones, as “far from perfect”,<sup>9</sup> its brand recognition was unquestionable and its subsequent abolition was criticised by many leading economic experts. Professor Brian Morgan, Professor of Entrepreneurship at Cardiff Metropolitan University, said that the loss of the WDA brand and abolition of the WDA “will probably go down in history as the worst policy decision made in Wales in living memory”.<sup>10</sup>

Indeed, the comprehensive Welsh Affairs Select Committee report on Inward Investment in Wales, which was published in January 2012, stated that:

*“The Welsh Government currently has no dedicated trade promotion agency. As a result, the international recognition of Wales has suffered and investment opportunities have been missed”<sup>11</sup>*

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<sup>9</sup> Evidence submitted to Welsh Affairs Committee by Sir Roger Jones, June 2011

<sup>10</sup> WalesOnline, *Inward investment in Wales helps local firms improve their competitiveness*, 6 July 2011

<sup>11</sup> *Welsh Affairs Select Committee: Inward Investment in Wales Volume 1*, January 2012, p.3

This lack of a distinctive inward investment agency is a recurrent theme throughout the recent reports on FDI in Wales and sits in stark contrast to Scotland and Northern Ireland who both have globally recognised agencies; Scottish Development International (SDI) and Invest Northern Ireland (InvestNI). The English cities are becoming increasingly active internationally, with London, Manchester, Birmingham, Sheffield and Liverpool having proactive inward investment agencies. It is not just the big cities that are globally ambitious. The introduction of Local Enterprise Partnerships in England is giving additional emphasis to inward investment, with counties such as Northamptonshire, Kent and Essex having international activities.

### **Successes & failures**

There has been a significant decline of inward investment in Wales. Nevertheless, there are important success stories of foreign companies locating in Wales. Tata Steel, Airbus and General Dynamics are all important examples of FDI which we must promote and analyse for best practice.

Admiral is a key example of a foreign direct investment success story, locating in Wales on the back of a £1 million grant from the WDA. When it launched on January 2 1993 Admiral had just 57 staff, but the company is now Wales' only FTSE 100 Company employing over 5,000 people in Wales. Admiral's turnover has risen from £18 million in 1993 to a staggering £2.22 billion in the most recent financial year.

Professor James Foreman-Peck from Cardiff Business School highlights the success of Admiral and states that we must carefully study these success stories in order to promote Wales effectively and attract further investment.

*“Careful study and emulation of this approach would be worthwhile and would not require additional powers for Wales. Some comparable change of direction of development and industrial policy by the Welsh government is essential because their current policies are not ensuring the long run viability of the Welsh economy, and therefore of Wales” - Professor James Foreman-Peck, Silk Submission, 4 March 2013<sup>12</sup>*

There are also however many examples of companies leaving Wales and investing elsewhere. The closure of the Bosch plant in the Vale of Glamorgan in 2011 is a clear example of a huge loss to the South Wales economy. Around 900 jobs were lost at the plant when the company transferred its operations to Hungary. The Bosch factory opened in 1991 to make alternator products for cars, with the help of £21 million in public grants from the WDA. The plant director Adam Willmott said during the closure that the move was one of "pure economics" after a feasibility study had concluded the switch to Hungary, where labour costs were 65% of those at the plant, was necessary to gain the benefit of economies of scale.<sup>13</sup>

The Burberry factory is another example of a well-known investment in Wales which unfortunately decided to relocate; over 300 employees were put out of work when Burberry pulled its polo shirt production out of Rhondda after 18 years in 2007.

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<sup>12</sup> Prof J Foreman-Peck, *Silk Commission Written submission*, 4 March 2013.

<sup>13</sup> BBC News, *900 Bosch Workers to get Support*, 15 January 2010

## **Case Study: Axiom**

Axiom is an international legal firm which provides legal services to businesses. The company employs over 800 professionals and has 11 global offices and four delivery centres. Axiom's headquarters is in New York and there is also a London-based office employing more than 150 lawyers.

In March 2012 it was announced that Axiom was investing in Northern Ireland. The new offices have created over 100 new jobs and contributed around £4 million a year to the local economy.

Axiom chief executive Mark Harris said: "In terms of industry norms, we are building a very different type of operation in Belfast. Our centre here is exclusively focused on client-facing teams undertaking complex work. As a result, we searched for a location which offered a high quality talent pool of experienced lawyers and ambitious law graduates". (*BBC News*, Legal services firm to create 100 new jobs in Belfast, 20 March 2012).

Initially, several locations across the UK were assessed for the investment and both Northern Ireland and Wales quickly emerged as attractive potential choices. Axiom concluded that Northern Ireland and Wales were fairly even when considering factors such as relocation and establishment costs, proximity and the existing skills base. However, Northern Ireland had an excellent sales operation through their trade and investment organisation, 'Invest Northern Ireland', which quickly developed a positive relationship with the company.

Invest Northern Ireland was also quick to offer a competitive package, supporting the investment with up to £1.1 million over eight years. Additionally, the Department of Employment and Learning has offered up to £500,000 for skills development under its Assured Skills programme.

Axiom is a thriving international company and the investment is a huge boost for the Northern Irish economy. In an increasingly competitive global market it is vital that countries proactively sell their potential to investors.



## Chapter 2 – Investor Aftercare

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*“Investment aftercare services improve the project implementation rate, encourage reinvestment, enhance the development impact of investment and build a strong reputation as an investment location”*

- Wessendorp, 2008<sup>14</sup>

A central feature of Foreign Direct Investment is ‘aftercare’ or what is often known as ‘Investor Development’ or ‘post-establishment services’. Aftercare aims to ensure that when foreign businesses invest in an area, they stay in that area. However, aftercare has often been ignored and has received limited funding, staff and attention.

The International Monetary Fund (IMF) defines FDI as “a category of investment that reflects the objectives of an investor in an economy or the direct investor obtaining a lasting interest in an enterprise resident in another economy or investing directly in an enterprise”.<sup>15</sup> The ‘lasting interest’ element of FDI is critical as the continuing development of a foreign company in a host country ensures reinvestment and therefore long term growth.

The benefits of an effective aftercare programme cannot be overstated. Ensuring investment is long term will not only boost local supply chains, but can lead to the development of new industry around the firm. Also when companies reinvest it highlights the favourability of the local conditions of the host country.

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<sup>14</sup> Wessendorp, P, *Evaluating the Role of IPAs in the New Investment Scenario*, 2008, p.7.

<sup>15</sup> IMF, *Original definition*, 1995

Focusing on aftercare is also an effective use of resources, as much of the literature on Investor Development points out that “satisfied existing businesses are the best ambassadors when new firms are recruited to the area, and they also serve as sources of leads when new firms to recruit are sought”<sup>16</sup>.

Manasoe and Mears’ paper on inward investment highlights five core services for an aftercare programme<sup>17</sup>:

1. Administrative services
2. Strategic services
3. Operational services
4. Informational services
5. General supply-side services

These five core services may involve a combination of activities such as business networking support and workshops, recruitment, skills and training support, assistance in policy and expansion projects, database and information work, and expatriate staff and family support. Aftercare programmes will also involve collaboration with other agencies and businesses as well as personal visits by investment teams to investors.

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<sup>16</sup> *B. Manasoe and R. Mears*, April 2011, p.2

<sup>17</sup> *B. Manasoe and R. Mears*, April 2011, p.3

## **Scottish Development International (SDI)**

A useful example of effective aftercare is Scottish Development International (SDI), the Scottish Government investment agency. SDI devotes a large amount of time and resources into looking after investors once they are located in Scotland. Activities include recruitment and training as well as ensuring that the agency's senior executives visit overseas headquarters to check chief executives are happy. Quoted in *The Economist*, the Chief Executive of SDI, Anne MacColl, stated that almost half of the projects SDI brought in last year came from existing investors in Scotland.<sup>18</sup>

## **Netherlands - Investor Development Program**

The Netherlands Foreign Investment Agency (NFIA) is an operational unit of the Ministry of Economic Affairs, Agriculture and Innovation and is another good example of effective aftercare services. NFIA places a great deal of importance on the expansion of existing activities and has developed the Investor Development Program. The Program provides a platform for consultation and advice as well as networking and events.

The program was developed by NFIA and works with a broad network of organisations including regional development companies, provinces and a number of large municipalities, for example Limburg Development and Investment Company (LIOF), the Rotterdam Investment Agency (RIA) and the Port of Rotterdam and Amsterdam.<sup>19</sup>

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<sup>18</sup> *The Economist*, *Catching the Scots*, 31 August 2013

<sup>19</sup> The Netherlands Foreign Investment Agency website, accessed January 2014

## Wales – ‘Investor Aftercare’

Inward investment has changed as the economic climate has evolved. Long term successful foreign investment must be more than simply offering grants and land. Aftercare and FDI must go hand in hand.

The WDA had ‘Strategic Accounts Directors’ who were responsible for key accounts in Wales on a global scale. Their job was to “help convert opportunities for growth by existing strategic investors and to identify related opportunities”<sup>20</sup>. As such, the WDA recognised the importance of monitoring and supporting existing strategic investors. This monitoring and support was lost under the IBW. This was highlighted in the Massey review of the IBW in August 2009 which concluded that there was a need for a “more proactive account management for FDI aftercare”<sup>21</sup> and that:

*“IBW has no direct responsibility for reinvestment by foreign owned companies in Wales. Given that there are over 500 foreign owned companies in Wales with many of them being major players, this is a major concern in the light of recent reinvestment trends and the current economic crisis is likely to reinforce this trend”<sup>22</sup>.*

The current Welsh Government Trade and Inward Investment Team do not have a specific and dedicated investor development programme. The primary focus of the Trade and Inward Investment Team is to develop new inward investment opportunities for Wales, rather than re-investments.

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<sup>20</sup> Assembly Research Service, *Welsh Development Agency: Structure and Functions*, February 2005, p.22

<sup>21</sup> Massey review, August 2009, p.20

<sup>22</sup> Massey review, August 2009, p.20

It could be argued that the Welsh Government ‘aftercare’ is delivered through their relationship with existing anchor companies and their ‘sector approach’ to the economy which was outlined in the Economic Renewal Programme published in 2010.<sup>23</sup> The principle behind the ‘sector approach’ to the economy was to target business support. Whilst there is a need to make the best use of resources the sector approach has raised concerns amongst industry experts and academics such as Professor Peter Gripaios, from the University of Plymouth, who argued that “the public sector [was] terrible at picking winners”<sup>24</sup>. There is clearly a concern that by targeting specific areas other parts of the economy will suffer unnecessarily.

The UK Business Minister, Vince Cable, reflected during the Welsh Affairs Select Committee Report on Inward Investment that “at a UK level we do not try to specify sectors in quite such a detailed way”<sup>25</sup>. This point was also made by Lord Green who stated that he did not think that the Government “should go out with a general proposition that UK is only interested in three or four or five sectors, because, actually, we are quite a broad-based economy”<sup>26</sup>.

The Welsh Government does not have a clear structure for inward investment aftercare and whilst there may be valuable relationships which have developed with anchor companies or with companies involved in a particular ‘sector’ of the economy, this approach provides no clear basis for re-investment. There is no single organisation directing this process and consequently no clear point of contact.

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<sup>23</sup> *Economic Renewal Programme*, July 2010, p.41

<sup>24</sup> *Welsh Affairs Select Committee: Inward Investment in Wales*, January 2012, p.31

<sup>25</sup> *Welsh Affairs Select Committee Evidence 107*, January 2012

<sup>26</sup> *Welsh Affairs Select Committee Evidence 107*, January 2012

## **Case Study: Invest Northern Ireland & 'Aftercare'**

Invest Northern Ireland (InvestNI) is a regional business development agency which works to attract and retain investment. Northern Ireland competes in an extremely competitive environment with neighbours Ireland who are able to attract investors with a corporation tax rate of just 12.5%, compared to the UK rate of 20%. This situation has forced Northern Ireland to adapt its inward investment strategy in order to remain competitive.

InvestNI is a non-departmental public body of the Department of Enterprise, Trade & Investment. This means they have their own branding and are not hindered by government bureaucracy, whilst at the same time having direct access to the Minister for Enterprise, Trade and Investment. InvestNI aims to ensure that once people come to Northern Ireland, they return. The agency places great emphasis on site visits; for every ten meetings they aim to secure one visit, for every ten visits they aim to secure one investment project.

Over 700 foreign investors and a multitude of investors from the rest of the UK have chosen to locate in Northern Ireland including Microsoft, Seagate Technology, DuPont and Bombardier Aerospace. Invest Northern Ireland promotes a highly educated, English-speaking workforce, affordable property and advanced telecoms and transport networks, with Northern Ireland becoming the first region in Europe to achieve 100% broadband coverage. The agency also markets a competitive cost environment and excellent incentive packages which includes offers such as cash grants, capital investments, interest relief and support for a variety of business operations such as research and development, training and marketing.

Importantly InvestNI has an identifiable structure, a 'Charter', and published priorities as well as clear, measurable targets. These targets are outlined in the Programme for Government 2011-2015 and include a target for 25,000 new jobs, £1 billion in investment and an increase in visitor numbers to 4.2 million. There are also more detailed targets, including securing £300 million of investment for R&D and achieving 20% growth in exporting manufacturing. All the targets for Invest Northern Ireland are published and annually monitored.

After meeting with InvestNI it was clear that this comprehensive set of targets and monitoring processes are in stark comparison to the situation in Wales where there are no targets and very little information regarding the Trade and Inward Investment team in the Welsh Government.

InvestNI places great importance on supporting existing foreign investors. Approximately 75% of investors will re-invest in new projects. The agency provides advice on growing an existing business, maximising efficiencies, product development and selling outside Northern Ireland.

The agency has dedicated 'Client Teams' who focus on providing tailored solutions rather than standalone programmes. These teams have to "live with the company" in terms of making sure that the project is implemented as agreed and managing and monitoring any on-going issues that may arise; for example liaising with government departments over skills & employment issues. This approach encourages reinvestment and helps build sector clusters.

The agency has provision for a business health check which identifies key themes and specific improvement areas. The important element of this aftercare support provided by InvestNI is the coordinated support from the 'Client Team' who link up with overseas representatives, investment managers and sales and marketing experts.

InvestNI also hosts investment conferences bringing together existing businesses and potential investors. The most recent Investment Conference was held in October 2013 and hosted more than 100 businesses from around the world.

#### **Example - Home Box Office (HBO)**

InvestNI worked with Screen Northern Ireland on securing an investment from HBO, an American premium cable and satellite television network. The investment involved the location and filming of the television programme 'Game of Thrones'. In the HBO case, a large proportion of the crew were locating in Northern Ireland and therefore showcasing schools, universities and housing was essential.



## Chapter 3 - Private sector involvement

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Inward Investment at all levels must be based on an effective partnership between the public and private sectors. This is a well-established principle and is increasingly relevant as pressures on public spending mean that investment promotion cannot be a solely public sector activity.

The private sector provides expertise, networks and essential skills which are vital to attracting and sustaining foreign investments. For example, over 75% of Scottish Development International staff has relevant direct private sector business to business sales and marketing experience<sup>27</sup>. Engaging with existing private sector investors and utilising their skills and experiences is central to identifying barriers to investment. This reinforces the title of the March 2010 Breeze Strategy report which states that ‘Inward Investment Begins at Home’. This point fundamentally relates to investor aftercare and working with existing inward investors.

Unfortunately, it has often been the case that “private sector partners, chambers of commerce and trade bodies are crowded-out locally, regionally and nationally”<sup>28</sup>. This is particularly pertinent to Wales where there has always been discussion over the role of the public and private sectors. This issue was highlighted in much of the evidence to the Welsh Affairs Select Committee Report on Inward Investment. South Wales Chamber of Commerce Director, Graham Morgan, stated in his oral evidence that there is an element of ‘silosism’ in terms of both the private sector and

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<sup>27</sup> *Welsh Affairs Select Committee Evidence*, January 2012, p.45

<sup>28</sup> *Inward Investment Begins at Home: Adam Breeze*, March 2010, p.7

public sector in Wales; he stated that “if we are to have a true international proposition, we need to encourage greater interaction between public and private”.<sup>29</sup>

One key benefit of private sector involvement is *networking*. The private sector provides a range of opportunities to meet people and exchange ideas which the public sector simply cannot deliver. The effective use of these relationships and networking opportunities is invaluable for attracting and retaining inward investment.

### **Public/Private Agencies**

There are many examples of investment agencies which are run as a partnership between the private and public sectors. These agencies will often have a board with both public and private representatives and will utilise the expertise and experience of existing private businesses to attract and retain further investment.

‘Business Sweden’ is an example of an investment agency which has this private sector involvement, as it is a merger of the Swedish Trade Council and Invest Sweden. Founded in January 2013 Business Sweden is jointly owned by the Swedish Government and private industry, represented by the Ministry for Foreign Affairs and the Swedish Foreign Trade Association. The shared ownership provides access to contacts and networks at all levels.<sup>30</sup>

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<sup>29</sup> *Welsh Affairs Select Committee Oral Evidence*, January 2012, p.9

<sup>30</sup> *Business Sweden website*, <http://www.business-sweden.se/en/>, accessed 12 September 2013

Luxembourg for Business (Lfb) was founded in April 2008 and is another example of a private-public investment body. Lfb brings together the Ministry of the Economy and Foreign Trade, the Ministry of Small and Medium-Sized Businesses and Tourism, the Chamber of Commerce, the Office du Ducroire, the National Credit and Investment Corporation (SNCI), the Chamber of Crafts and Luxembourg's Business Federation (FEDIL). The latest figures for direct investors in Luxembourg show that there were 213 direct investors in 2011; this is a slight increase since Luxembourg for Business was established in 2008. According to Lfb literature they rely on the strengths of both public and private partners and operate as a trade promotion agency liaising with Luxembourg's Trade & Investment Offices, its Embassies, and other international promotion networks.<sup>31</sup>

Appendix B provides more detail on private sector involvement in investment agencies detailing several examples from across Europe.



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<sup>31</sup> Lfb website, <http://www.luxembourgforbusiness.lu/>, accessed 6 October 2013

## **Case Study: Invest in Nottingham**

Invest in Nottingham provides an interesting model for inward investment agencies. The organisation consists of an Invest in Nottingham Team employed by the local authority which works very closely with the private sector through the 'Invest in Nottingham Club'. This structure allows close partnership working with the private sector which understands the local economy and can provide industry support.

Invest in Nottingham has a clear mission statement to bring more investment into the city. The organisation offers a range of free services including property solutions and location advice, recruitment and training, relocation support, access to funding and incentives, as well as continued support to ensure businesses succeed and expand. This aftercare is viewed as a central element of the work of Invest in Nottingham as many of the projects involve the expansion of existing businesses.

After speaking with Invest in Nottingham it was clear that consistency of branding was essential and that by bringing the private sector into the process, specifically with a financial contribution, a coordinated and efficient approach has been developed.

The Invest in Nottingham Club has 250 business members who pay a membership fee and benefit from the availability of early access to information about the city, the use of extensive business networks including a wide range of events and the potential to secure new clients and development opportunities.

The private sector plays an important role in terms of campaigning for Nottingham as a location for investment. Invest in Nottingham Club members involve themselves in the process by sponsoring events, promoting the benefits of Nottingham and highlighting further business opportunities through business networking.

Market intelligence is viewed as a central element of private sector involvement in inward investment. Existing businesses provide an understanding of the composition and needs of the local economy and how a company might fit into the local supply chain. The private sector involvement allows for a coordinated approach which ensures everyone benefits from inward investment. This coordination can result in shared resources, for example seconding staff, providing expertise, sponsoring events or making facilities available.

The private sector involvement in Invest in Nottingham reinforces the importance of supply chain development and the potential for the existing private sector to expand and benefit from inward investment.

## Local Supply Chains

The benefits of foreign investment on local business can be far reaching as companies develop supply chain relationships and contacts with inward investors. Academics have continually commented on the importance of inward investment for stimulating the local economy highlighting that a coordination of indigenous and foreign business policy is vital for economic growth.

Dr John Ball from Swansea University commented that “an important policy assumption is that inward investment has a substantial multiplier effect in encouraging local businesses to supply goods and services, thus increasing the effectiveness of the original investment”.<sup>32</sup>

It is this ‘multiplier effect’ which is essential for long term sustainable investments. Strong local supply chains will also influence the local workforce helping develop the skills base to support further re-investment. It is therefore essential that at the beginning of any inward investment process a thorough analysis of the existing market structure of a location is carried out. Focusing on what assets exist in the local economy will help provide a clear understanding of what investment is practical and necessary.

Breeze Strategy warns of regions signing up to trade shows, and setting up foreign offices before understanding the existing private sector. “A more sustainable, cost-effective and ultimately successful strategy would be to work

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<sup>32</sup> Evidence submitted to Welsh Affairs Committee by Dr John Ball Swansea University, June 2011.

with local companies active in that market; to engage with existing local inward investors from there; to identify other business, cultural and academic linkages”.<sup>33</sup>

Exploring the existing capacity of local companies can help develop effective supply chains linking up indigenous business with potential foreign investors. In their evidence to the Welsh Affairs select Committee the Admiral Group highlighted the importance of using local suppliers stating that by looking at Admiral as just a call centre is “to misunderstand the added value that it brings”.<sup>34</sup> The example provided to the Committee was the use of a local printer in Cardiff who has developed alongside Admiral utilising the investment and success of the company to attract other contracts.

Local engagement is integral to effective investor aftercare. It is clear that second and third generation investment is vital for long term economic growth. A comprehensive understanding of the existing market structure of a region and positive engagement with the local private sector will ensure that reinvestment is secured.

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<sup>33</sup> *Inward Investment Begins at Home*, Breeze Strategy, March 2010, p.15

<sup>34</sup> *Oral evidence submitted to Welsh Affairs Committee by Mr David Stevens, Chief Operating Officer, Admiral Group plc, 15 September 2011*

## Chapter 4 – Welsh Conservative Vision

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‘Destination Cymru’ details Welsh Conservative proposals for inward investment. We believe that the importance of investor ‘aftercare’ has been neglected in Wales for too long. Between 1998 and 2008, 171 foreign-owned sites closed in Wales, with the loss of 31,000 jobs.<sup>35</sup> We must ensure that we retain investment for the long-term success of the Welsh economy. We believe that Wales must have a comprehensive aftercare programme delivered in partnership with the private sector.

As the UK Minister for Trade, Lord Green, stated in 2012, Foreign Direct Investment in Wales should be seen as a “marathon and not a sprint”.<sup>36</sup> This reinforces the need to ensure long term foreign investment through effective aftercare services.

The Welsh Government’s Trade and Inward Investment Team do not have a specific and dedicated investor development programme. As the key department charged with delivering FDI services we believe this is a mistake. Whilst the Welsh Government may argue that some services will be delivered through their engagement with anchor companies and the sector approach, this does not provide a clear structure or the coordination which is necessary for successful investor aftercare.

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<sup>35</sup> P Evans, R Holtz and A Roberts, *Empirical investigation of FDI in Wales*, Welsh Assembly Government Research Unit, 2008.

<sup>36</sup> *WalesOnline, Wales in need of long-term plan to attract investment*, 26 September 2012.



Welsh Conservatives would reorganise the Trade and Inward Investment Team in the Welsh Government so that investor aftercare was part of the department's remit. Under this reorganisation the investor aftercare department would have dedicated 'Client Teams' assigned to each foreign investor. Their role would be to monitor and support investors during and after the initial investment. Encouraging reinvestment must be the guiding principle behind the work of these teams as well as ensuring that local supply chains are involved with the process and are effectively identified. These teams must act as coordinators ensuring that they are the first port of call for all interested stakeholders.

Aftercare services can be delivered in a cost effective manner as they rely on personnel and business relationships rather than grants and funding. Services such as business networking, workshops, recruitment services and training support are all central elements of aftercare and can be delivered effectively in partnership with the private sector at minimal cost to the taxpayer. The key point to make is that 'aftercare' is about relationships and how we can make the most of contacts and networks which are available to us through the private sector. This is about being clever and efficient with inward investment. We would also look to utilise existing funding more effectively in order to deliver first class aftercare services, which would include an annual conference bringing together key businesses and potential investors.

In this reorganisation we would also establish a private sector arm of the Trade and Inward Investment Team called the 'Investment Council'. We believe that the private sector must be fully involved with the inward investment process and not simply there on an advisory basis. The private sector arm of the Trade and Inward Investment

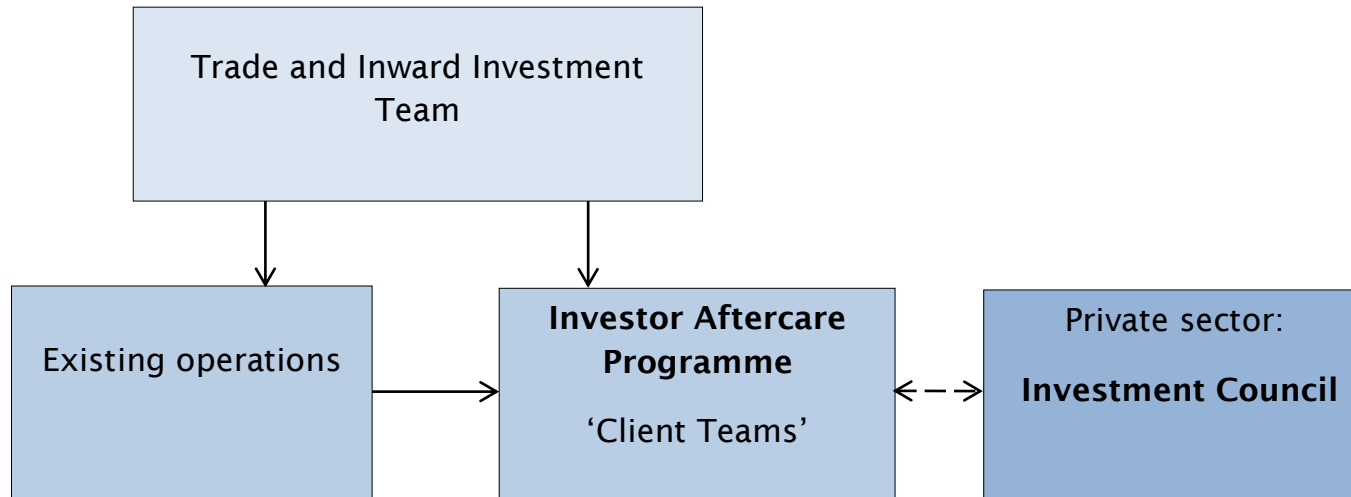
Team would work closely with Government officials and would have an important role, particularly with investor aftercare where its connections and expertise would be invaluable.

Attracting foreign business to Wales is extremely beneficial for the success of existing businesses who gain from the economic stimulus of the investment, the potential for supply chain development and the opportunities for expansion and business networking. The private sector would be critical in developing and delivering aftercare services such as business networking support and workshops, skills and training support, and assistance in policy and expansion projects.

To ensure effective involvement, the Investment Council must have genuine influence in the formation and delivery of investor aftercare services. This can be achieved by ensuring that when managing a particular account each Client Team has a private sector sponsor from the Investment Council. The private sector must also look to host potential investors in conjunction with Client Teams on a regular basis. This collaboration is essential in order to secure long-term investment and boost the existing private sector.

The diagram on the next page illustrates the structure of a newly reorganised Trade and Inward Investment Team.

## Reorganised Welsh Government Trade and Inward Investment operation:



The aim of the Investment Council is to ensure proper involvement of the private sector in the inward investment process. This involvement must not simply be on an advisory basis. The public sector is currently too dominant in Wales, 25.2% of employment in Wales in the second quarter of 2013 was in the public sector. This is higher than the UK average of 19%.<sup>37</sup> With a more balanced economy this policy would enable the private sector to take a more active role in a process from which they will ultimately benefit. We must look to reach a position where the expertise and experience of the private sector advises and helps deliver the strategic direction of the Government.

<sup>37</sup> Office for National Statistics, September 2013

## Targets

It is apparent from the InvestNI case study that clear and ambitious targets are central to effective economic development policy. Targets not only highlight a country's ambition for investment they ensure that transparency and accountability are central to FDI. The WDA published detailed business plans which included comprehensive targets, including jobs created, jobs safeguarded and capital investment. The WDA also published yearly and six-monthly reports. The availability of this information did not continue under the new system in the Welsh Government, which does not currently publish any equivalent targets.

Welsh Conservatives believe it is essential that the Welsh Government establishes a clear set of targets and publishes a well-defined structure for its FDI operations. We would look to ensure that detailed targets and reporting structures are established alongside the Programme for Government.



# Chapter 5 – Conclusion

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This policy document has outlined a long term vision for Foreign Direct Investment in Wales. We must examine the long-term viability of investment and this can only be ensured through an effective investor aftercare programme delivered in partnership with the private sector.

The case studies identified in this document all have interesting elements which could be implemented in Wales. InvestNI presents a particularly useful picture with regard to its investor aftercare services. The emphasis on supporting companies throughout their investment process and managing and monitoring any on-going issues that may arise encourages reinvestment and supports the development of sector clusters.

Drawing from the examples of private-public partnerships across Europe we can also understand how the private sector can, and indeed must, be brought into the FDI process more effectively. This private sector involvement is particularly relevant when examining investor aftercare. Engagement with the existing business community is central to long-term investment.

Welsh Conservatives believe that FDI in Wales is in need of reorganisation and regeneration with investor aftercare and private sector involvement being core elements of this change.

# Appendix A – FDI Statistics

## Jobs created by Foreign Direct Investment in the UK (jobs defined as new and safeguarded jobs)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
England	53,468	61,181	87,133	62,706	74,594	80,559	77,760	TBC
England excluding Greater London	46,716	53,162	77,608	51,087	10,253	52,268	62,610	TBC
Northern Ireland	4,079	4,717	4,765	5,760	2,129	2,136	1,480	2,800
Scotland	2,915	6,242	6,012	2,851	5,471	7,809	12,610	TBC
<b>Wales</b>	<b>5,204</b>	<b>6,167</b>	<b>5,629</b>	<b>2,714</b>	<b>7,362</b>	<b>3,544</b>	<b>2,854</b>	<b>7,047</b>
UK Total	89,866	78,357	103,539	78,540	94,346	94,598	112,659	170,096

## Foreign Direct Investment Projects in the UK

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
England Total	1,084	1,243	1,358	1,538	1,404	1,267	1,236	1,343
England excluding Greater London	761	855	934	998	877	784	663	759
Northern Ireland	23	31	56	65	49	44	27	38
Scotland	60	89	91	78	96	83	96	111
<b>Wales</b>	<b>51</b>	<b>67</b>	<b>68</b>	<b>60</b>	<b>65</b>	<b>38</b>	<b>23</b>	<b>67</b>
UK total	1,220	1,431	1,573	1,744	1,619	1,434	1,406	1,559

# Appendix B - Investment Agencies

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This appendix provides more detail on private sector involvement in investment agencies. Three examples from across Europe of investment agencies which proactively engage and significantly involve the private sector are detailed below:

## **Germany Trade and Invest**

Germany Trade & Invest is the economic development agency of the Federal Republic of Germany. Germany Trade & Invest has developed a close relationship with the Worldwide Network of German Chambers of Commerce (AHKs). The AHKs have 50,000 member companies all over the world and provide an invaluable source of information and contacts<sup>38</sup>.

## **Invest in France Agency**

Created in 2001, the Invest in France Agency (IFA) is a public-private body which reports to the French Finance Minister and the Minister responsible for Regional Development. The Chairman and CEO of the IFA is France's Ambassador for International Investment. The IFA employs 160 people, split between its headquarters in Paris and

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<sup>38</sup> *Worldwide Network of German Chambers of Commerce website*, accessed 29 October 2013

27 offices throughout the world<sup>39</sup>. The IFA is responsible for promoting, prospecting and facilitating international investment in France. The IFA network operates on an international, national and regional basis.

### **Estonian Investment and Trade Agency**

Whilst the Estonian Investment Agency (EIA) is a government agency promoting foreign investments in Estonia, it is part of Enterprise Estonia which involves a substantial private sector presence in its operations. Established in 2000, Enterprise Estonia promotes business and regional policy<sup>40</sup>. The supervisory board of Enterprise Estonia includes private sector representatives as well as public officials.

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<sup>39</sup> *Invest In France website*, accessed 30 October 2013

<sup>40</sup> *Enterprise Estonia website*, accessed 30 October 2013



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