European Structural and Investment Funds Growth Programme for England (2014 – 2020) and Foreign Direct Investment

A UKTI Guidance Note for Partners

July 2015

UKTI Investment has produced this guide in good faith for partners and project applicants to assist them in developing, managing and monitoring ERDF funded FDI projects or projects with foreign investment elements. It is has been produced following an extensive consultation with a variety of partners with direct experience of managing FDI projects in 2007 - 2013 programmes. Applicants must ensure they have read and understand the Managing Authority (DCLG) guidance published on gov.uk .

Introduction

Following a year-long consultation this guide has been produced by the Investment Group of UK Trade and Investment (UKTI) to help local partners to develop Foreign Direct Investment (FDI) projects in response to ESIF Calls to enhance their local offers/propositions, build investor development capacity and support other FDI related actions. However, it is important that this is seen as supplementary advice to the ERDF Managing Authority (Department for Communities and Local Growth - DCLG) guidance already published on gov.uk and not a replacement to it.

We know there is widespread support for FDI activities in Local Enterprise Partnerships (LEPs) and amongst other key partners (local authorities, universities, investment promotion agencies). However, during our consultations we discovered a significant inconsistency in local understanding of what is/is not eligible ESIF funded activity. 14 ESIF strategies have included FDI actions, but some local partnerships did not include FDI in their thinking because of the lack of explicit references to it in the high level guidance published by HMG in July 2013. Experienced local authorities and other partners who have been involved in this arena for a long time have however laid plans for a range of ESIF funded FDI actions of which UKTI Investment is supportive.

UKTI Investment hopes that during the life of the ESIF Growth Programme for England 2014 - 2020 local partners from all parts of England will move to engage in an integrated national approach to the promotion of FDI, making the best use of resources in a competitive arena and maximising the level of ESIF funding deployed to support FDI promotion, with key local partners significantly increasing their FDI promotion capacity.

The intention of the guide is to help local partners develop projects which are aligned to both UKTI national investment policy and include activities which comply with the requirements of the Managing Authority.

Clauses included in the UKTI Investment Services Team (IST) contract allow the possibility of unlocking match funding for local projects and this guide provides help to those wishing to access it.

UKTI Investment Partnership Managers are able to assist potential project applicants in the project development process. Contact details for the Partnership Managers are at Annex 1. Technical enquiries relating to the ESIF application process should be addressed to DCLG.

*UK Trade & Investment is the Government Department that helps overseas companies bring their high-quality investment to the UK's dynamic economy. Investment Group leads on the attraction of high value inward investment.

Contents

1. Policy

1.1. Commission Policy

Despite conventional thinking amongst local economic development partners investment promotion is not excluded by the EU's Regulations. The Commission views FDI as a member state/subnational competitive process (as with trade/export) and there is no reason for actions to be treated any differently. On the contrary, Commission policy aims to promote the Single Market as a destination for investment and the Commission recognises it cannot fall behind in the global investment race. The fact that the Commission consider it neither feasible nor desirable to replace current member state FDI promotion arrangements with EU infrastructures does not preclude the enhancement of member state investment actions. FDI support can deliver genuinely additional endogenous growth for local areas and genuinely additional EU employment.

Commission policy actively encourages elements of investment work - promoting intra-EU business collaborations between SMEs, SMEs with OEMs and facilitating collaboration around Horizon 2020.[1] The Commission is seeking to encourage High Value Added investments and attract external (to the EU) investment to develop enterprises and sectors that produce HVA products and services. Policy also seeks to create more knowledge and technology intensive businesses, attract investment which stimulates overseas trade, encourage technology transfer and the reconstruction of mature sectors, facilitates intra-EU collaborations around trade in third countries, connects smaller and larger enterprises with S&T objectives, encourages innovation in new products and technology, enhances sector capability and supply chains and supports soft landing initiatives. ERDF is principally focussed on support to Small Medium Sized Enterprises. Whilst, Article 3 of the new Regulation[2] states that it is possible to support productive investment in larger companies within priorities for innovation, low carbon or (where in collaboration with SMEs) ICT this needs to be read in conjunction with the national eligibility rules and English Operational Programme.

FDI actions can also help deliver Commission objectives on both Environment and Innovation. Investment is not a topic exclusive to the SME Objective but crosscuts all other 2020 thematic objectives and fits with the Commission's European International Investments Policy (2010).

The European Commission outlined its approach to the EU's future investment policy in its communication "Towards a comprehensive European international investment policy" in 2010[3]. This policy contributes to the objectives of smart, sustainable and inclusive growth, set out in the Europe 2020 Strategy.

The Commission recognises that attracting FDI from the rest of the world remains an increasingly important challenge for the EU, particularly since the financial crisis. EU policies aim to make the EU more attractive by:

- extending and deepening the single market;
- ensuring open and competitive markets inside and outside Europe;
- improving European and national regulation; and
- expanding and upgrading Europe's infrastructure and its scientific base.

[1] http://ec.europa.eu/programmes/horizon2020/
[2] Regulation (EU) no 1301/2013 of the European parliament and of the council of 17 December 2013
[3] http://trade.ec.europa.eu/doclib/html/147884.htm

Many of these policy strands are reflected in the Commission's guidance for the European Investment and Structural Funds Operational Programmes 2014-2020.

1.2. Operational Programme

European Structural and Investment Funds include the European Social Fund, European Regional Development Fund and European Agricultural Fund for Rural Development. The funds are from the European Union for projects that create jobs and economic growth.

DCLG has agreed the European Regional Development Fund Operational Programme with the European Commission.

The Operational Programme[4] supports the promotion of Foreign Direct Investment. The full document is available at gov.uk.

Support for FDI actions will nearly always fall under Priority Axis 3 (SME Competitiveness). Although it may be possible to bring forward projects under Priority Axis 1 (Research and Innovation) and Priority Axis 4 (Low Carbon) with a strong supporting rationale, we would expect calls and projects will be developed under Priority Axis 3 except in exceptional circumstances.

Under Priority Axis 3 (SME Competitiveness) the objectives are to increase the capacity and capability of SMEs to grow and increase levels of entrepreneurship particularly in underrepresented groups. Under this Priority Axis, projects can be supported which provide advice, support, grant funding, non-grant finance or incubation to SMEs to develop new products, processes and services, implement improvements, support supply chain interventions, develop local offers to attract investment, improve access to finance, develop individual business growth strategies, attract investments, support entrepreneurial activity for start-up and survival.

The ERDF operational programme includes the following specific actions which provide further clarification on the sort of Foreign Direct Investment activities which are anticipated.

Under Investment Priority 3c (Supporting the creation and the extension of advanced capacities for products, services and development)

- Attracting new foreign direct investment into England through, for example, promotion of business collaborations (SME to Prime/Original Equipment Manufacturers, SME to SME), supply chain initiatives, sectoral and research and innovation propositions linked to smart specialisation and "soft landings".

Under Investment Priority 3d (Supporting the capacity of small and medium sized enterprises to grow in regional, national and international markets and to engage in innovation processes)

- Provision of advice, consultancy, mentoring and peer-to-peer support to indigenous businesses and inward investors (SMEs from outside the EU who will move to England)

1.3. UKTI Perspectives

ESIF provides local partners with the opportunity to deliver enhanced FDI support services and additional investment promotion activities, thereby contributing to the government's growth

[4] https://www.gov.uk/government/publications/draft-european-regional-development-fund-operational-programme-2014-to-2020

agenda, the UK Partnership Agreement and LEP Area ESIF Strategies. Although FDI activity can deliver only a small number of the Operational Programme's various outputs, it has the potential to create very large numbers of high quality jobs for local areas at low cost.

Local FDI programmes can help enhance sector capability and provide innovative support to supply chains. Experience in previous programmes shows that projects can deliver genuinely additional jobs at extremely low levels of public investment. ERDF resources can provide local partners with an opportunity to add value to other match funding sources and to deliver real added value to FDI activities. Projects must not duplicate or overlap with existing provision and encompass all activities related to the sources of funding. Resources must be used in conjunction with the ERDF Operational Programme.

To help facilitate this, UKTI is making a modest amount of eligible match funding available through salary costs which may be used in projects where the UKTI Investment Services Team (IST) are involved as a formal delivery partner. This is not a cash match from UKTI. Whilst the national core service offer will remain in all areas, local partners are encouraged to work with UKTI to develop additional ESIF activity, including but not limited to those activities already referred to in the Operational Programme:

- Account Management, including working with current investors to support investments and expansions.
- Sector Support, including specific cluster and sector initiatives.
- Supply chain initiatives, targeting activity and collaborations with Prime/OEMs.
- Develop incubators and soft landings directed at foreign direct investors (although not for direct capital support).
- Bespoke local solutions and actions related to IP management, Innovation and R&D investments and support.
- Inward Missions, including promotion of business collaborations, SME to Prime/OEMs, SME to SME.
- Innovative and creative solutions to test new support mechanisms, service development and R&D in services.
- Research, marketing and proposition development.

UKTI does not expect its match funding to be used for overseas activities that would detract from the UK national offer. Any proposal of overseas activity would need to be agreed with the respective market and HQ sector team where appropriate. To be eligible activity will need to demonstrate how it will provide additional benefits and will not duplicate or compete with the national offer.

2. The Case for FDI

There is strong evidence of market failure when it comes to supporting FDI, and significant barriers.

Evidence suggests a well-targeted approach to FDI support can result in substantial economic benefits to the UK, due to the beneficial characteristics of the companies involved. This means a need for policy focus on high value projects, capable of generating productivity enhancing spill over benefits and likely to contribute positively to knowledge intensive business activity in the UK, including R&D.[5]

Government can intervene effectively around FDI and there is consistent evidence of the ability of services to influence high value investment in ways likely to benefit the UK economy.

Annex 2 contains further information on the case for FDI which may be helpful when developing projects.

3. Local FDI Project Development

Partners should refer to the suite of guidance documents produced by DCLG and published on the gov.uk website when developing projects in response to an open call. These documents include the eligibility rules, the publicity guidance, the state aid guidance, the procurement guidance and the lifecycle of a project. All guidance and documents can be found here at gov.uk: https://www.gov.uk/england-2014-to-2020-european-structural-and-investment-funds

Potential project applicants will vary considerably – potentially including:

- Local Enterprise Partnerships
- Local Authorities
- HE and FE
- Investment Promotion Agencies
- Chambers of commerce

UKTI understand that each local area has a different investment offer and varying degrees of resources allocated to identifying and attracting foreign investment. The degree of assistance provided is dependent on the needs of the local areas. Hence the importance of working closely with local partners to identify ways of strengthening local provision.

UKTI's help to local partners to showcase their local offer is currently given in the context of the UK First approach, i.e. to put forward the best UK locations relevant to the opportunities available. UKTI's Local Investment Showcase platform www.localinvestuk.com has also enabled LEPs and Enterprise Zones to publicise their capacities and services. This might be helpful when designing projects to focus on particular sector strengths or propositions.

[5] BIS Economics Paper No. 13, International Trade and Investment - the Economic Rationale for Government Support, May 2011

Project proposers should note that FDI activity has the potential to deliver a number of desirable outputs for the Operational Programme, depending on the specific investment priority being supported, including:

- Number of enterprises receiving support
- Number of enterprises receiving grants
- Number of enterprises receiving financial support other than grant
- Number of enterprises receiving non-financial support
- Private investment matching public support to enterprises (Grant)
- Private investment matching public support to enterprises (non-grant)
- Employment increase in supporting enterprises
- Number of enterprises cooperating with research institutions
- Private investment matching public support in innovation or R&D projects
- Number of enterprises supported to introduce new to the market products
- Number of enterprises supported to introduce new to the firm products

Final programme output definitions are due to be issued later this summer.

4. Match Funding

UKTI is currently able to provide match funding across England each year until 2020 through salary costs in the UKTI Investment Services Team (IST) contract, primarily of account managers. Applicants will therefore need to partner with the UKTI IST contractor to develop projects which form a coherent whole. It is envisaged that match will be available in the form of Investor Development/ Account Manager capacity. This model means that any local delivery partners will contract with DCLG and back-to-back agreements with the UKTI IST contractor will be put in place to ensure the veracity of the audit trail for the match component of the project.

Access to the available match funding needs to be handled carefully. The match currently lies with the UKTI IST contractor. It is a commercial organisation with limited resources available for multiple consultations with potential project proposers. Partnership Managers will liaise with partners on behalf of the successful contractor to develop projects which look to include UKTI match. Please note that there is no obligation on the IST contractor to pro-actively develop projects – although they are obligated to make the match funding available.

It will be the responsibility of the applicant/accountable body to work with the IST contractor to supply appropriate evidence in line with the Managing Authority's requirements.

UKTI Investment has made it explicit during the IST procurement process, and in the subsequent contract, that elements of the contract expenditure could be made available as match funding. The contractors are aware that the presence of EU funding determines the way in which the match expenditure is managed from an administrative point of view. The principal risks will lie with the applicant who is the accountable body and it is open to contractors to manage their own risks in future negotiations. The back-to-back agreements will pass risk to the UKTI IST contractor for the element of the projects which they are delivering and this will need to be considered in the development of the project. Clearly cost/eligibility of any claimed expenditure will be the contractors' responsibility and they will need to comply with the technical requirements of ERDF

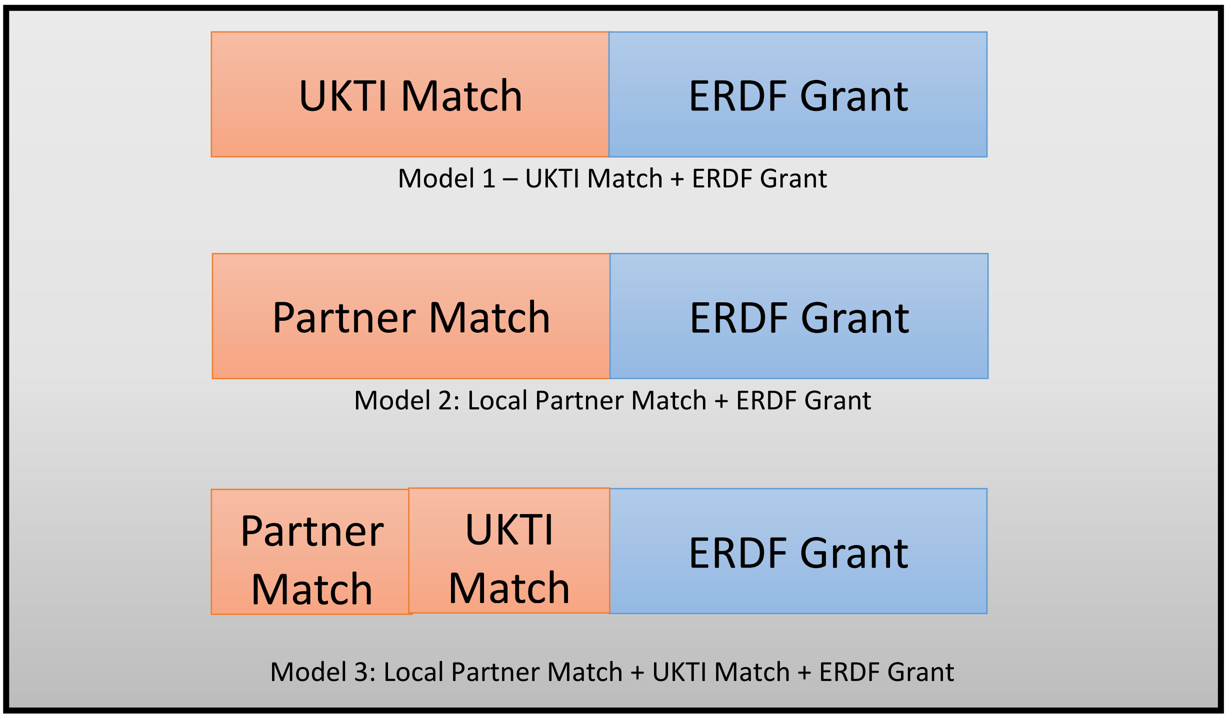
In terms of project construction a number of models are available but in all cases it is important that any projects, using UKTI match, are developed as a whole project and not parallel and unconnected activities.

1. A project could be fairly simple and consist of a project combining UKTI match funding straight to additional activities supported by ERDF to form a sum greater than that of the parts.

2. In some LEP areas there may be the possibility of combining local partner match and UKTI match (considerably enhancing the potential for drawdown of ERDF).

3. Some partners may decide to proceed without utilising the available UKTI match funding at all.

The 3 potential models are illustrated below:



An example of a non-sectoral project:

UKTI Match	ERDF Grant
Eligible account management salary costs in a LEP geographical area	Additional account management of SME companies not currently account managed through the 'ONE List'.
Benefits: Increased number of projects and jobs created through increased account management across the area.	

An example of a sectoral project, which could cross LEP geographies

UKTI Match	ERDF Grant
Eligible account management costs in Advanced Engineering and Manufacturing (AEM) sector	Account management of AEM SME companies not currently account managed and research (incl. targeting) of supply chain development through new FDI and expansion
Benefits: Increased number of projects and jobs created through increased resource for sector account management and targeting across the specified geography.	

There is a possibility that many organisations could bid for ESIF projects which could result in a patchwork of delivery partners.

LEP priorities differ across the country and as a result the amount of ESIF available to partners varies. There will be some LEPs who do not wish to invest EU funding in FDI activities. A number of LEPs are looking to add a small amount of ESIF to enhance key existing activity – the 'icing on the cake'. There are also a number of LEPs who see FDI as a strategic priority to their area and will assign a significant level of ESIF resource to create new, and/or enhance existing activities.

5. Additionality

ESIF must not replace public expenditure. It must bring added value to UKTI domestic funding and support genuinely additional activity. Projects are required to demonstrate additionality at appraisal and in delivery. It must be shown that any activity funded by ESIF would not have occurred without ESIF support. It can be shown that a project would not proceed without ESIF support, or that it can be delivered in a shorter timescale, or that the ESIF funding provides additional or enhanced activity which is of strategic importance.

Projects should also be able to sufficiently evidence market failure. There are multiple ways in which delivery partners have demonstrated 'additionality' in previous projects, including those illustrated in the table below:

Additionality Case	Example
1. Would not go ahead	All UKTI-ESIF funded activities are genuinely additional - incurring additional costs to do additional things. This can be more of the same (e.g. account management) or the offer of something completely different for example soft landings or supply chain initiatives.
2. Innovation	Innovation in FDI services could see the piloting and testing of new ideas and service developments such as creating new connections to trade support.
3. More attractive	The eligibility criteria for the UKTI core offer often excludes certain companies from support. There have been various projects where ESIF has allowed the eligibility criteria to be different to the UKTI core offer, thereby allowing access to companies who would otherwise be excluded.
4. Sooner	Grants/Support to companies often accelerate investment because company cash flow will almost always be a brake on expenditure. Grants can trigger investment programmes which would not otherwise occur or accelerate investment which is planned.
5. Faster	Providing top quality, commercially useful, local propositions will lead to accelerated investment decisions.
6. Different	Advisors can significantly influence company behaviour by helping them make better

	choices. Additional Advisors can do different things (different sectors, different specialisms)
7. Bigger/more	Projects have gained economies of scale by offering more of the same thing (outward missions) to more companies.
8. New partners	ESIF resources have encouraged the involvement of entirely new partnerships around cross cutting themes such as environmental sustainability (environmental organisations have become connected).

When developing projects applicants need to consider how the project will add value. The following prompts may be helpful in project design:

1. The key economic impacts of FDI include:
Increased employment, particularly in creating high quality jobs, more business and academic R&D and innovation related expenditure, raising the UK skill base, building local supply chains, providing opportunities for UK SMEs to participate in supply chains, bringing new technologies into the UK ecosystem and enhanced business practices to key UK sectors. UKTI policy is seeking to secure more investment from those who will use the UK as a base for exporting.

2. FDI activities lead to genuinely additional jobs for both the UK and the EU

Companies from outside the EU setting up their European operations in the UK can bring added value to the European market, create the potential for trade with third markets and intra EU business collaborations involving collaborative research and technology transfer. Established investors deliver significant opportunities for increasing employment. FDI projects created more than 111,000 jobs in 2013-14.

3. The key high-level FDI objectives where ESIF can support include:

- Support to overseas investors in England to raise the number of high value jobs in LEP areas
- Initiatives to add value to local supply chains
- New technologies for the UK ecosystem in high priority technology areas.
- Increasing R&D expenditure
- Increased entrepreneurial activity and the development of clusters of entrepreneurship
- Development of the UK talent base
- Interventions to create new partnerships and collaborations with SMEs in the UK and elsewhere in the EU

4. What can FDI do for English SMEs?

- Create supply chain opportunities
- Provide opportunities for commercial and R&D collaboration
- Develop clusters for entrepreneurship that benefit SMEs

5. What can FDI do for the UK skills agenda?

- New investors bring new processes and technologies to the benefit of the workforce
- Overseas investors will invest in training and development programmes for employees
- FDI will also fund research supporting high value jobs

6. What can FDI do for Smart Specialisation, research and innovation in England?

- Investment in UK Universities
- Create new collaborations for HE and the Knowledge Base
- Increased R&D programmes
- Bring new technologies into the UK
- Contribute to numbers employed in the (research) sector

7. What can FDI do for the low carbon economy/sustainability (sustainable transport)?

- Bringing new technologies which add value to the low carbon agenda
- Introduce new practices and technologies
- Contribute to EU low carbon policy objectives
- Satisfy some of the demand for low carbon energy generation
- Contribute to numbers employed in the sector

8. What can FDI do for the environment and resource efficiency?

- Contribute to EU low carbon targets
- Add value by introducing new technologies
- Contribute to numbers employed in environmental sector
- Increase opportunities for the SME base to collaborate and partner with the FDI investor
- R&D spend in resource efficiency technologies

9. What can FDI do for the ICT sector?

- Introduction of new technologies
- Increase the volume of entrepreneurs in Europe
- Bring new added value activity which will contribute to the technology agenda
- Add high value skills and employment opportunities
- Create opportunities for collaborations and partnerships with SMEs
- Provide investment for R&D

6. Eligible Expenditure and Activity

It is recognised that foreign direct investment activities differ considerably from other business support actions such as export promotion - where significant expenditure can be undertaken overseas. It is the applicant's responsibility to read and understand the Operational Programme and Eligibility Rules. Overseas promotional activity has historically proven difficult in terms of the interpretation of the relevant regulations. Any project will need to take account of EU displacement and competition issues within the EU and may need to address potential challenges at a later date.

Funding cannot be used in situations where it would undermine prosperity and employment elsewhere in the EU.

Inward investment is included as a specific action under Priority Axis 3 of the programme which is exclusively targeted at the competitiveness of SMEs.

Whilst the Regulations state that ERDF can support "productive investment" in larger businesses, this is only allowable under Priority Axis 1, Priority Axis 4,and, where there is collaboration with SMEs, Priority Axis 2. ERDF is primarily intended to support SMEs and so any support for large companies in the programme as a whole will be minimal. The number and rationale for supporting any large companies would be subject to agreement with DCLG during the application and appraisal stage.

Indicative activities that ERDF can support under Priority Axis 3 include attracting new foreign direct investment into England through, for example, promotion of business collaborations (SME to Prime/Original Equipment Manufacturers, SME to SME); supply chain initiatives, sectoral and research and innovation propositions linked to smart specialisation and 'soft landings'; provision of advice, consultancy, mentoring and peer-to-peer support to indigenous businesses and inward investors (SMEs from outside the EU who will move to England). ERDF cannot support the direct costs of relocation, although it can, for example, support the provision of business accommodation and workspace in England.

ERDF should only directly support businesses located within the programme area (England), so we do not visualise a situation where ERDF would be used to support an SME abroad. However, a package of ERDF support that could be available once the SME has located to England might be discussed in principle before an SME re-located, to help pave the way for the move.

Destination marketing to tourist visitors does not fit with the approved operational programme which is focused on support for SMEs. 'Place marketing' activity is allowable as longs as it is targeted at inward investor SMEs from outside the EU.

7. Outputs and Results

The Operational Programme is "focused firmly on growth, building on England's competitive advantages and addressing key bottlenecks in specific sectors and geographies. It aligns European Union funding with England's aspirations for locally driven growth."

In creating project targets it is important to recognise that FDI actions are often very different from other business support activities. In order to succeed, projects need to invest far more effort in client acquisition and need to engage a large number of foreign companies. This means that project expenditure profiles are very different to UK based business support activities. The unit cost per eligible output could be relatively high so it will be very important to highlight where a project adds strategic value to the Operational Programme.

Whilst much FDI promotion activity is designed to reach a large number of potential investors only a small number of those engaged are ever secured for the benefit of local economies. Account therefore needs to be taken both in assessing relevant project costs (cost profiles will be different) and in setting project performance targets.

The balance of the assessment should focus on the delivery of volume of jobs or on high quality jobs and the related investment. For example, the attraction of a capital intensive R&D based company can deliver technology, management practice, benefits to SMEs in a local supply chain and initially only involve a relatively small number of jobs. It is therefore expected that many FDI projects will deliver a low number of 'Enterprises Supported' for the programme (compared with other business support) but demonstrate VFM by either much larger numbers of jobs or quality jobs/investments.

8. Evidencing Job Creation

Output Definition guidance will be published by DCLG shortly which will set out the detailed definitions and provide minimum evidence requirements. A draft version of the guidance was published in November 2014 for the use of partners in the development of their bids.

9. State Aid

State Aid remains a complex subject with legal dimensions. Partners should consult the latest guidance available from the gov.uk website https://www.gov.uk/state-aid

The basics guide produced by BIS provides an overview of the rules and a guide to assessing whether a measure is affected by the rules and how you can handle this https://www.gov.uk/government/publications/state-aid-the-basics.

The manual produced by BIS provides more in-depth guidance on individual types of aid and processes https://www.gov.uk/government/publications/state-aid-manual.

DCLG have also provided a guidance note on state aid law to applicants to the programme which can be accessed here: https://www.gov.uk/government/publications/european-structural-and-investment-funds-project-requirements-and-publicity-materials

Applicants should always seek their own independent advice when considering state aid implications of their project.

10. Local Reporting

Any organisation which delivers an ESIF funded project will be required to report expenditure, activity, outputs and results by Local area. Additionally, we recommend that organisations using UKTI Investment match funding agree with LEPs the frequency with which they should produce progress reports with local partners.

ANNEX 1 - Partnership Managers

Phil Roberts

- Sheffield City Region

07824 451379 | Phil.Roberts@ukti-invest.com

Steve Clarke

Greater Lincolnshire

- Greater Cambridge Greater Peterborough
- New Anglia

07557 490300 | Steve.Clarke@ukti-invest.com

Ian Whittaker

- Cumbria
- Liverpool City Region
- Lancashire

07803 496739 | Ian.Whittaker@ukti-invest.com

Ali Chafekar

- Leicester & Leicestershire
- D2N2

07468702610 | Ali.Chafekar@ukti-invest.com

Tas Baqir

- Tees Valley Unlimited
- North East

07917 211521 | Tasleem.Baqir@ukti-invest.com

Mark Wathen

- SEMLEP (South East Midlands)
- Northamptonshire

07823 327275 | Mark.Wathen@ukti-invest.com

Rob Emony

- Cornwall & the Isles of Scilly
- Dorset
- Swindon & Wiltshire

07920 860952 | Rob.Emony@ukti-invest.com

Nick Thomas

- Humber

07867 140421 | Nick.Thomas@ukti-invest.com

Jane Lycett

- Stoke-on-Trent & Staffordshire
- Coventry & Warwickshire
- The Marches

07824 889412 | Jane.Lycett@ukti-invest.com

Gareth Ralphs

- Thames Valley Berkshire
- Oxfordshire
- Enterprise M3
- Buckinghamshire Thames Valley

07500 227163 | Gareth.ralphs@ukti-invest.com

Keith Hughes

- Hertfordshire
- South East
- New Anglia

07557 490300 | Keith.Hughes@ukti-invest.com

Paul Stephens

- The York, North Yorkshire, and East Riding
- Leeds City Region

07881 916286 | Paul.Stephens@ukti-invest.com

Nicky Griffiths

- Greater Birmingham & Solihull
- Black Country
- Worcestershire

07557 634920 | Nicola.Griffiths@ukti-invest.com

Caroline Cain

- Greater Manchester
- Cheshire & Warrington

07738 027 261 | Caroline.Cain@ukti-invest.com

Graeme Hay

- Coast to Capital
- Solent

07920 860952 | Graeme.Hay@ukti-invest.com

Marie Coniston

- West of England
- GFirst (Gloucestershire)
- Heart of the South West

07917 041826 | Marie.Coniston@ukti-invest.com

ANNEX 2: The Case for FDI

There is strong evidence of market failure when it comes to Foreign Direct Investment, and significant barriers.

Evidence suggests a well-targeted approach results in the most substantial economic benefits to the UK from FDI due to the differing characteristics of the companies involved. This means a need for policy focus on high-quality projects, capable of generating productivity enhancing spill over benefits and likely to contribute positively to knowledge intensive business activity in the UK, including R&D.[6]

Government is able to intervene effectively around FDI, and whilst the benefits cannot be quantified, there is consistent evidence of the ability of services to influence high quality investment in ways likely to benefit the UK economy.

"The UK is the host of more than 45,000 foreign affiliates. Although they represent less than 2 per cent of the total number of firms in the UK, they play a major role in the UK economy. In 2010, they employed at least 3 million workers, accounting for more than 13% of the workforce employed and contributed to at least 36% of the total turnover in the UK."[7]

Many companies from outside the EU set up their European Operations in the UK and use them as a base to expand in to the European market. Increased engagement with overseas investors in local areas can raise the number of high value jobs, add value to local supply chains, provide opportunities for them to partner and collaborate with UK SME's, increase R&D spend in the UK (often by them locating their R&D in the UK), develop the UK talent base and bring new technologies in to the UK ecosystem in high priority technology areas.

New investors bring with them new processes and technologies that the UK workforce will benefit from and develop clusters for entrepreneurship that the UK companies will benefit from. Overseas investors will invest in training and development programmes for UK employees and collaborate with the UK academic community to invest in R&D programmes, bringing new technologies into the UK and acting as a key influencer in setting the direction for R&D priorities in the UK.

FDI can also support the low carbon economy (including sustainable transport), bringing new technologies and investment into the country which add value to the low carbon agenda, introducing new practices, R&D and technologies and contributing to UK low carbon policy objectives.

Foreign entrepreneurs bring new added value activity which contributes to the UK's technology agenda, high value skills and employment opportunities, collaborations and partnerships with UK SME's.

The UKTI Annual Report for 2014/15 showed how FDI actions created 84,063 new jobs and 23,055 safeguarded jobs, involving 1,988 projects. UKTI and its partners were involved in 1,610 of these projects.

---

[6] BIS Economics Paper No. 13, International Trade and Investment - the Economic Rationale for Government Support, May 2011

[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277171/ep7-foreign-direct-investment-trends-manufacturing.pdf

The latest data from ONS, published in 2013, shows that in 2011, just 1% of registered businesses in the UK were foreign owned, yet they accounted for 28% of value added[8]. In terms of size, 28% of large companies in the UK are foreign owned, as opposed to micro (0.5%), small (3.4%) and medium (12.2%). Those large foreign owned companies contributed 40% of GVA.

Foreign Owned Companies are also six times more likely to export than UK owned companies. Of the 22,500 Foreign Owned Companies in the UK in 2012, 6.4% (13,600) were exporters[9].

In addition, foreign-owned companies spent £8.8bn on research and development (R&D) more than half of the total business R&D expenditure in the UK (£17.4 billion) in 2011[10].

Barriers and Market Failures

The research shows that unaided markets would not deliver optimal levels of investment, with the example that the benefits of productivity enhancing spill overs for some types of inward investment are not internalised by the investor.

The three biggest barriers faced by potential investors are:

- access to the right contacts and networks
- access to information not otherwise available
- guidance in navigating the legal and regulatory framework in the UK
- limited knowledge about the UK's attributes as a place to invest, and;
- In some cases, adverse perceptions of the UK.

Foreign Investors are effectively influenced by advice and help when making decisions on locating in the UK and the scale and scope of a project. Foreign Investors use of UK suppliers, involvement in joint R&D in the UK and the creation of other beneficial links are also significantly influenced by support. These activities are likely to be conduits for productivity enhancing knowledge spill overs.

For high quality projects, help with access to contacts at universities, or other knowledge centres can be important although benefits are highly dependent on the quality of project, and on strong linkages with UK firms which have the ability to absorb new knowledge and ideas.

Most inward investment clients believe they could not have obtained similar advice or help from another source.

A further study by Smart Growth Analytics Ltd on Higher Growth Business and Business Support in the South West in 2011[11] found that Inward Investment market failure exists around imperfect information on behalf of investors about the local area and as a result, Inward Investment Perception & Marketing Support is one of the most effective economic development actions a local area can undertake. This imperfect information extent rises in line with globalisation and the technical nature of the industry.

The economic and business benefits of FDI are set out in:
https://www.gov.uk/government/publications/the-economic-benefits-of-support-for-international-trade-and-investment

[8] Business ownership in the UK, 2011, ONS
[9] Exporters and importers in Great Britain, 2012, ONS
[10] Business ownership in the UK, 2011, ONS
[11] Smart Growth Analytics Ltd, Higher Growth Business and Business Support in the South West: Research to Inform the ERDF Higher Growth Business Programmes Final Report - March 2011