



MONITORING AND EVALUATION OF FOREIGN DIRECT INVESTMENT IN KAZAKHSTAN

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Abbreviations

FDI	Foreign Direct Investment
GDFCF	Gross Domestic Fixed Capital Formation
GDP	Gross Domestic Product
GVA	Gross Value Added
GVC	Global Value Chain
IMF	International Monetary Fund
ISC	Investor Support Centre
M&E	Monitoring and Evaluation
MINT	Ministry of Industry and New Technology
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
UNCTAD	United Nations Conference on Trade and Development

EXECUTIVE SUMMARY

This report examines the system of monitoring and evaluating foreign direct investment (FDI) in Kazakhstan and proposes a more comprehensive and unified approach for the future.

Monitoring and evaluation activities are important in order to manage FDI attraction support and aftercare on the basis of results, to make sure that institutions and organisations learn from experience and improve, and to give new insights and innovation into the process. There is a need for a national system so that national organisations can understand the effect of different policies and strategies and can interact with the regions in a way which maximises the benefit to both.

Monitoring and evaluation is not just a central and national activity – it is also important at the regional level. Each region needs to understand how it is performing relative to other regions and why this is the case, whilst dealing with potential investors who are interested in several regions needs to be properly coordinated. Only with a unified and neutral information system is it possible for everyone to see the full picture and to find appropriate ways to cooperate.

Effective monitoring and evaluation requires clear definition, not only of what is being assessed (whether it is under the direct control of government or the consequences of its actions), but also how this relates to the inward investment cycle – how an investment moves from conception through implementation to aftercare.

As a model it is possible to divide the process of investment from the perspective of the inward investment agency (and actions to promote inward investment) into four phases and seven stages as follows:

1. Lead generation: identifying companies who are potentially interested in investment and within this those who have a real prospect of investing in Kazakhstan in desired fields.
 - a. Initial contacts: generating long list of potential companies and contacts
 - b. Qualified leads: identification of which of the companies have real potential and fit into Kazakhstan's strategic objectives
2. Conversion of leads: developing propositions for investment with investors to the point of an investment decision
 - a. Client propositions: development of contacts so that clients have defined projects where Kazakhstan is seen as a possible destination
 - b. Final offer: a positive decision to invest in a specific project in Kazakhstan
3. Implementation: actual operation of the investment
 - a. Start up: ensuring that the timetable is met for initial establishment
 - b. Scale up: assisting in ensuring that output targets are met
4. Aftercare: making sure that the investment provides maximum benefits to Kazakhstan

a. Development options: identifying and supporting reinvestment

These stages require different key performance indicators and have different outcomes and therefore need to be monitored separately.

Kazakhstan has established a monitoring system through Kaznex Invest which already collects some key data on investors and potential investors. However this has some weaknesses as Kazakhstan continues along a development path towards an open, market-oriented economy, which is fully integrated with the wider international economy. Because of this development the process of attracting direct investment will require a shift from a supply-based approach involving the targeting of investors for predetermined projects, towards a more market-orientated approach based on the attraction of foreign investors with investment projects which are mobile and can be contested across borders. Particular areas which will require development include:

1. A stable and agreed pattern of roles and responsibilities
2. Promotion and adoption of good practice at a national level, including development of the existing Kaznex Invest database.
3. Clear alignment of the system with the strategic objectives of inward investment
4. Development of links to the regional level on a formal basis to avoid the danger of fragmentation

As a first step towards implementing such a framework, it is recommended that the Ministry of Economy, the Committee for Investment in MINT and Kaznex with the full support of the Foreign Investors' Council should agree to establish a formal monitoring and evaluation framework and allocate the necessary resources for establishing a Monitoring and Evaluation Unit in Kaznex. The Unit would take the lead in its development and implementation, based on an agreed action plan with defined tasks, deadlines and allocation of responsibilities. A suggested action plan is included in the recommendations section.

INTRODUCTION

The purpose of this report is to provide guidance and advice to the policymakers and practitioners in Kazakhstan responsible for the design and delivery of support to new and existing inward investors. The focus of this advice is monitoring and evaluation activities which inform national performance on the attraction and retention of inward investment at both national and regional levels.

The present context is one in which the responsibilities for the design and delivery of investor support are shared amongst different sponsoring ministries (e.g. The Ministry of Economy and Budget Planning, The Ministry of Industry and New Technologies, The Ministry of Regional Development) and different delivery bodies at national and regional levels (e.g. Kaznex Invest, Akimats and their SECs and ISCs).

Moreover, this institutional and organizational landscape is currently undergoing change and development: Kaznex Invest, for example, is moving from a geographic to a sector approach in terms of its investor marketing and support structures and new Investor Support Centres are being established in the regions. As such, a stable pattern of roles and responsibilities around inward investor support - one which is rational, well-understood, complementary and effective - is still emerging.

In this context, introducing change in Kazakhstan on a system-wide basis where 1) moves towards a more fully-integrated and results-based management approach to the attraction and retention of inward investment are encouraged and 2) monitoring and evaluation are recognized as central to organizational and systems-wide learning and improvement - is a major challenge to policymakers and practitioners alike and is expected to remain so going forward.

The guidance offered in this report draws upon 1) proven theory and on good international practice in the monitoring and evaluation of inward investment and 2) an understanding of the information base which underpins the monitoring and evaluation activities of Kaznex Invest. The report is set out in the following sections:

- The rationale for monitoring and evaluation of FDI
- Key definitions and principles and a model for the investment project cycle
- The current situation regarding monitoring and evaluation in Kazakhstan including its weaknesses relative to good practice
- Recommendations for improving the system in Kazakhstan

For ease of reading, a detailed learning model from Scotland and detailed information on proposed key performance indicators are included as annexes.

1. THE RATIONALE FOR MONITORING AND EVALUATING FDI

1.1 What is Monitoring and Evaluation?

Monitoring (i.e. the routine checking of the progress of an organisation and its activities towards planned goals) and Evaluation (i.e. the process of checking whether a project's objectives were achieved and, if they were, how efficient and economical the process was). This is what allows FDI-related performance to be observed, quantified and measured both in terms of short-term discrete activities and in terms of long-term results. Collectively, M&E activities are the essential components of the “performance management” toolkit. The results of M& E provide the vital feedback which informs the design and implementation of future activities for improved performance.

1.2 Why Monitor and Evaluate?

“A growing number of governments and organizations are using performance measurement as a tool to improve their management. Performance measurement is used in the most successful corporations to improve their competitive advantage by monitoring costs, effectiveness, and customer satisfaction, and to report returns on investment to shareholders. In the public sector as well, elected and appointed officials worldwide are increasingly using performance measurement to demonstrate effective returns on the use of public funds.” World Bank Group, Investment Toolkit, 2013.

National unified frameworks for the monitoring and evaluation of FDI-related activities are important: such frameworks enable all the activities which support all phases of the “investment project-cycle” (see page 13):

- to be planned and managed on the basis of results (i.e. outcomes) and impacts;
- to be learning experiences which help improve the performance of the institutions and organisations involved on a continuous basis; and
- to provide new insights and drive innovation in the process.

Moreover, the mobile nature of FDI means that well-integrated national M&E frameworks will necessarily involve a well-defined spatial dimension where it may be necessary for data to be captured at a number of levels (e.g. regional, metropolitan and district level etc.)

In Kazakhstan there is a particular need at this time for a more unified national framework for FDI-related M&E which is well-integrated and co-ordinated – so that institutions and organisations at the national and regional levels (the Kazakhstan FDI-support network) can understand a) the effect of different policies, strategies and programmes and b) how these can be developed and implemented in ways which better maximise the benefit to the network. For example, regions need to understand how they are performing relative to other regions and why this is the case. And when dealing with potential investors who are evaluating site options in several regions, support activities (within and between regions and between regions and national organisations - especially Kaznex Invest) need to be properly planned and coordinated.

Moreover, only with a unified information and communication system does it become possible for the different actors and agents throughout the FDI-support network a) to share a common “big picture” b) to see the same detail needed for the different actors and agents to fulfil their job role in support of specific

projects in an optimal manner and c) to identify new ways to cooperate in order to maximise mutual benefits.

1.3 The General Benefits of M&E

The performance measurement of FDI-related activities through M&E can yield many management benefits which can accrue at all levels of the FDI-support network. These would include the following:

- Tracking progress against “internal” goals set at the level of the organisation, the division and the team. Tracking and measuring performance enables managers to assess progress against internal objectives and plans. This enables better informed decisions to be made about future strategies, priorities, goals, targets and resource requirements and allocations.
- Measuring progress against “National” goals. The same monitoring enables the institutions and organisation of the FDI-support network to confirm that the impact and results of FDI-related activities are consistent with, and contributing to, national policies and objectives.
- Collecting useful data. When well designed, data collection and monitoring can yield information and intelligence in a format that is useful to other partners and stakeholders in the FDI-support network, including potential investors, government officials, private sector partners, the media etc. For example:
 - others cannot be informed about recent investments in a particular location if the necessary information has not been recorded on a local and national basis; and
 - the provision of reliable and quantified indicators of success can help to raise the confidence of private sector partners and encourage further investment and participation.
- Collecting information which can be used in promotional campaigns. In the process of monitoring, information may be acquired by the network which will be useful in national promotional initiatives. This could include, for example, positive testimonials from investors about the strengths of a particular location. Through this process it is also possible to identify "investment champions," who can be used as "ambassadors" to meet with potential investors and encourage them to invest in Kazakhstan.
- Learning from experience. Actors and agents across the FDI-support network in Kazakhstan can only learn from experience if that experience is captured and shared. Learning from the mistakes of others as well as their successes can be enormously powerful. This can only happen on a network-wide basis if the costs and benefits of others' experience are well signposted in a timely manner. A well-designed, fully-integrated M&E framework can greatly assist this process.
- Comparing performance against others. By measuring activities and results on a consistent basis, performance benchmarks are created on the use of resources and achievements in attracting FDI. This enables comparative analysis a) at the national level, against that of competitor countries and b) at the regional, metropolitan and district level, for competing locations. Over time this may help to identify spatial advantages specific to particular regions/locations. In turn this can help in the development of national policies which promote specific regional strengths and more complementary (and less competitively wasteful) patterns of specialisation in FDI attraction and retention at regional and local levels.

- Satisfy key external stakeholders (Ministries, Politicians, Media etc.) that the organisations which make-up the FDI-support network in Kazakhstan are doing their job. Performance measurement also highlights that any organisation, as part of the public sector, is publicly accountable. Moreover, it enables managers to demonstrate their achievements on the basis of reliable evidence and to show that the use of public funds has secured good value for money for the taxpayer. This can considerably strengthen the negotiating stance of organisations when requesting additional resources in the future.
- Improve the quality of independent audits. Many of the same performance measures and tracking systems used for M&E by internal management can be used to expedite and improve the quality and efficiency of periodic, independent assessments or external audits.

The long gestation periods for realised FDI results mean that organisations must set interim goals and time frames. Setting interim goals, enables more concrete measurement in the short-term of a) progress against target and b) the effectiveness with which resources are used. This can be important for countries like Kazakhstan, which have only relatively recently mounted more concerted efforts to improve the attractiveness of the country's investment climate. It can, however, be several years before such reforms yield significant investment results.

1.4 The Network Benefits of M&E

There are specific benefits from monitoring and evaluating FDI-related activities which can only accrue by deliberate and intentional adoption of a “fully networked” approach. These benefits would include the following:

- Performance measurement and description: a unified M&E framework allows a “common language” to evolve where basic terms and definitions are agreed and understood on a network-wide basis. This allows, for example:
 - inputs, activities, outputs, results and impacts to be defined and described clearly and thoroughly on a common and shared basis: and
 - consistent methodologies for data gathering and analysis to developed and applied.
- Building evaluation into the process of service delivery and across the FDI-support network “bottom up”. This can enable a move away from costly “snap shot” studies into smaller and more focused assessments which can support and augment programmes of continuous improvement at the organisational level across the network.
- Improved understanding of investor (client) needs and behaviour. The development of a common and systematic approach to the collection and analysis of investor feedback (quantitative and qualitative) will allow the FDI-support network as a whole and the individual organisations involved to have a much clearer idea about the difference their support is making to the business of the investor. Creating this feedback loop is crucial if the development of the FDI-support network in Kazakhstan is to be increasingly market oriented and client/customer led.
- Shared learning: One of the major opportunities for the FDI-support network in Kazakhstan is the ability of the organisations involved to learn from each other and tap into the wide range of experience and expertise which is potentially available. This can facilitate and enable, for example, the identification of new opportunities for the development of joint projects, initiatives and approaches which are firmly focused on investor need. Thus, a unified M&E framework provides a

structure within which systematic learning can take place leading to consistent application and opening up the possibility of continuous improvement on a network-wide basis.

2. KEY DEFINITIONS, PRINCIPLES AND METRICS

The purpose of this chapter is to introduce some key definitions and the concepts which are fundamental to monitoring, evaluation and FDI. Specifically, this chapter will cover the following topics:

- What is meant by Monitoring and Evaluation and by FDI – without clear definitions it is impossible to operate any system
- What are the Key Variables of Monitoring and Evaluation – measuring different aspects at all stages of the investment process
- The FDI Project Cycle and generic examples of Key Performance Indicators for this – measuring the progress of an individual investment as it moves from conception to implementation

2.1 Defining Monitoring and Evaluation

The OECD defines **monitoring** as:

“A continuing function that uses systematic collection of data on specified indicators to provide management and the main stakeholders of an ongoing development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds.”

And **evaluation** as:

“the process of determining the worth or significance of a development activity, policy or program to determine the relevance of objectives, the efficacy of design and implementation, the efficiency or resource use, and the sustainability of results. An evaluation should (enable) the incorporation of lessons learned into the decision-making process of both partner and donor.”

Monitoring and evaluation are, however, synergistic activities. While monitoring information is a necessary input, it is not a sufficient input to ensure rigorous evaluation. Monitoring information is collected and used primarily for ongoing management purposes. As such, over-reliance on such information has the potential to distort any overall measurement and assessment of performance (e.g. typically, monitoring, because of its managerial focus and purpose, only covers certain managerial-dimensions of activities at project/programme level).

Evaluation is needed to provide a wider and more complete interpretation of the performance of activities. Evaluation tends to be a more complex, time-consuming and imprecise activity: because of the data deficiencies and many imponderables and unknowns that can exist, evaluation, of necessity, often has to rely on estimation procedures and methods for the calculation of key metrics.

And because of its greater cost, regular evaluation is conducted less frequently and over a longer time-scale than monitoring (which is more on-going). One important way of making a virtue out of this tension

is to design monitoring systems which allow potential problem issues associated with overall performance measurement and assessment to be identified at an early stage. This, in turn, may signal the need for more detailed investigation via an interim-evaluation.

2.2 Defining FDI

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship.

Foreign Direct Investment Enterprise

A foreign direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10% or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise.

The numerical threshold of ownership of 10% of the voting power determines the existence of a direct investment relationship between the direct investor and the direct investment enterprise. An ownership of at least 10% of the voting power of the enterprise is regarded as the necessary evidence that the investor has sufficient influence to have an effective voice in its management.

Foreign Direct Investor

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following:

- (i) an individual;
- (ii) a group of related individuals;
- (iii) an incorporated or unincorporated enterprise;
- (iv) a public or private enterprise;
- (v) a group of related enterprises;
- (vi) a government body;
- (vii) an estate, trust or other societal organisation; or
- (viii) any combination of the above.

In the case where two enterprises each own 10% or more of each other's voting power, each is a direct investor in the other.

A direct investor has a direct investment enterprise operating in a country other than the economy of residence of the foreign direct investor

The degree of managerial control varies by entry mode which could include:

- wholly-owned subsidiaries;
- acquisitions;
- joint ventures;
- licensing arrangements; and
- franchises etc.

2.3 Key Variables in Monitoring and Evaluation

What are the key variables that are the primary subject of monitoring and evaluation? Annex 1 depicts another logic tool which captures the causal relationship between the key variables which connect the “means” and “ends” of projects, programmes and strategies. This logic tool describes the flow and progression of cause and effect through time which can be summarized as follows:

- *Inputs*, which buy/provide support/enable...
- *Activities*, which produce...
- *Outputs* that lead to/results in...
- *Outcomes*, consistent with the objectives set, and are a cause of
- *Impacts* in the wider economy etc.

This logic tool depicts the overall flow of cause and effect as a “triangle (see Annex 1). But not only does the triangle illustrate each key variable builds upon another, it also shows how the ability of the project partners and program providers to shape and control key variables diminishes as you move up the hierarchy from inputs to impacts. This raises an inherent problem in monitoring and evaluation namely that of “attribution”. To illustrate this point, take “impact on the economy” at the apex of the triangle: compared with variables further down the hierarchy, from the policy maker’s perspective the apex represents the point of:

- minimal control;
- minimal linkage with inputs in terms of direct causality; and
- minimal attribution to policy, in comparison to variables further down the hierarchy.

2.4 The FDI Project Cycle

In the present context, monitoring is concerned with the regular tracking of inputs, activities, outputs, outcomes and impacts of FDI-related activities at the project, programme, regional, sector and national

levels. Evaluation is primarily concerned with the assessment of outcomes and impacts on either an “ex post” or “ex ante” basis.

At the project level, the activities which provide the primary focus for FDI-related monitoring and evaluation can be thought of as part of a “project-investment cycle” comprising:

- Investment attraction (e.g. marketing and support activities to generate investment leads, the conversion of investment leads to investment prospects and the conversion of investment prospects to investment decisions);
- Investment start-up (e.g. the direct and indirect co-ordination and delivery of an integrated package of customized investor support);
- Operational scale-up (e.g. the direct and indirect co-ordination and delivery of an integrated package of customized investor support);
- Post-investment support (e.g. the pro-active co-ordination and delivery of strategic aftercare on an on-going basis).

Winning and retaining FDI projects for a country or a region is a slow and painstaking process, involving a series of structured interventions by the National Agency and its partners to help investors through the different stages of the investment cycle. This section sets out the most important outputs, outcomes and impacts which need to be measured to enable each stage of the investment cycle to be monitored and evaluated.

The process of supporting new and existing inward investors can be represented generically as four-phased cycle of activities. This chapter further develops and refines the four main phases of the cycle and identify seven separate stages of action and support: lead generation (initial contacts and qualified leads), conversion of leads (proposition development and final offer), implementation (start up and scale up) and aftercare, as summarized in the table below:

2.5 A model for monitoring the FDI project Cycle

Main stages	Lead generation		Conversion of leads		Implementation		Aftercare
Steps	1 initial contacts	2 Qualified leads	3. Client propositions	4. Final offer	5 Start-up phase	6 Scale up	7. Reinvestment
Activities	Market research Marketing	Initial dialogue with client	Proposition development	Negotiation	Project management		Development options
Main outcome	Long list of initial contacts	Conversion of leads to qualified leads	Clients with defined projects where Kazakhstan is shortlisted	Positive investment decision	Start-up phase	Scale up	Reinvestment

Main KPIs							
No of cos in portfolio	√	√	√	√	√	√	√
New in period	√	√	√	√	√	√	√
Conversion ratio		√	√	√			
Assessment of impact		Fit	Scale Fit Probability	Public funding needed Cost benefit analysis	Meeting time targets	Meeting output targets	Local suppliers. Growth prospects. Follow on projects

In the sections below, each phase of activity is analysed under a set of common headings:

- Key activity
- Main outcome
- Key performance indicators
- Sub activities and performance outputs
- Main outcomes
- Knowledge building about the client

It will also be important to gather information on the most important inputs in each phase of the FDI project cycle in order to determine assess the efficiency and effectiveness of the initiatives being taken to attract and retain foreign investment. The most important input will be staff time and associated marketing and promotional costs incurred by the national agency, the regional support bodies and the work undertaken in overseas countries, mainly by embassy and consulate staff. The contribution of partner organisations and private sector firms, particularly those engaged in professional and financial services will also be important.

Step 1. Lead generation – long list of possible foreign investors

Key activity: market research and marketing to identify and make contact with potential inward investors

Main outcome: the development of a long list of possible companies who could be interested in investing in a particular sector of Kazakhstan’s economy

Key performance indicators:

- Number of new companies contacted in the period
- Number of existing companies re-contacted in the period
- Total number of foreign companies listed in the portfolio
- Number of new companies added to the enquiry portfolio in a particular sector

This will involve a series of sub activities that will need to be carried out to build up a long list of initial contacts with possible foreign investors. These are set out in the table below:

Sub activity	Performance outputs in period
Responding to direct enquiries made by foreign investors and their advisers	No of enquiries processed Origin of enquiry
Responding to referrals from intermediaries and partners (Kazakh and foreign embassies, Ministries, other agencies, Akimats, Universities, banks, professional advisers etc)	No of enquiries processed Origin of enquiry
Direct marketing campaigns	No of campaigns Number of firms contacted
Attendance at exhibitions, forums and conferences	No of exhibitions attended Number of companies contacted
Advertising campaigns	Number of advertisements placed
Public relations	No of campaigns
Preparation and circulation of introductory brochures, sector studies, fact sheets and newsletters, CD ROMs and videos, web site development	No of new publicity materials produced Number sent to companies Number sent to intermediaries and partners
Involvement of partners and intermediaries	Number of intermediaries and partners contacts

Main outcomes

These activities will result in a range of initial enquiries from potential investors and intermediaries. It will be important that the source of the enquiry is recorded and a periodic analysis is carried out to identify the best sources of enquiry. It will also be useful to grade the contact (from 1 low quality to 10 high according to the strength of the prospect). This classification, which will change as more information becomes available, is important in highlighting those leads that need to be followed up as a priority.

Knowledge building about the client

It will be important that a common approach is adopted by staff in Kaznex Invest and their partners to build up basic information on each company contacted. This should include:

- Name of company
- Background and status of the company
- Names of contacts in the company
- Role and coordinates
- Reason for enquiry
- Summary of enquiry and subsequent follow up discussions (as part of stage 2 see below)
- Source of enquiry
- Date of initial enquiry
- Number of times the company has been followed up (as part of stage 2)
- Date of last follow up (as part of stage 2)
- Classification of interest by sector, sub sector and project if known
- Strength of the contact/ enquiry in terms of their likelihood of being able to provide details of a definable investment project (rating from 1 low to 10 high).
- Summary of action taken
- Next action, date and by whom

Step 2. Lead generation – Conversion of leads to qualified leads with defined projects

Key activity: initial dialogue with companies (particularly those with an above average rating) on the long list to determine their level of interest in investing in Kazakhstan and thus whether it would be worthwhile to invest time in building up a relationship with them.

Main outcome: the development of a short list of qualified leads, namely those clients with a defined project.

Key performance indicators:

- Total number of qualified leads (those with defined projects), categorised by sector and their likelihood of investing in Kazakhstan: (Category A: clients expected to make an investment decision in next 6 months; Category B: firms with projects, but details and timescale are unclear; Category C: firms which expect to invest in the region within the next 3 years)
- Number of companies drawn from the long list that have been followed up in the period
- Number of new companies added to the qualified leads portfolio analysed by sector and size of project in the period.
- Conversion ratio – number of qualified leads as a ratio of companies contacted

This will involve a series of sub activities that will need to be carried out to develop a relationship with the company, understanding the scope and potential of the project and establishing whether they are considering Kazakhstan as a location. These are set out in the table below:

Sub activity	Performance outputs in period
Work by Kaznex Invest staff in the period	Number of clients followed up and the number of qualified leads identified in the period
Work by Akimat/ISC centre in the period	Number of clients followed up and the number of qualified leads identified in the period
Work by Kazakhstan embassy staff in the period	Number of clients followed up and the number of qualified leads identified in the period
Work by third party marketing consultant/ intermediary	Number of clients followed up and the number of qualified leads identified in the period
Inward visits by clients to Kazakhstan by clients	Number of inward visits and regions visited
Assessment of the lead generation process	Analysis of the portfolio of qualified leads at the end of the period by source lead, category, sector and size

Main outcomes

It will be important to establish direct contact with a relevant person in the foreign company to determine whether they have plans to invest in the region and Kazakhstan in particular. If the answer is positive, it will be necessary to understand the parameters of the project in terms of the product/ market envisaged, potential output, the investment expected, employment involved, location options and site and premises requirements. It will also be necessary to build up an understanding of what their investment decision will depend on and the likely timescale involved.

Knowledge building about the customer

For those companies contacted who indicate that they do not have plans to invest in the region or Kazakhstan, it will be important to understand their level of awareness about the area and what would need to change for them to be interested.

For those companies with defined projects, it will be important to gain a deeper understanding of the key drivers, which will influence the company's investment and location decision. This will need to be built over time as the relationship with the company develops. It will be important that intelligence is gathered at both *enterprise* level (the whole company) and *establishment* level (the business unit). It will help to shape the proposition to be put to the company setting out the case for investing in Kazakhstan (step 3) and the subsequent negotiations leading to a final offer, which takes into account the value and impact of the investment to Kazakhstan (see step 4 below). It will also help Kaznex Invest to determine the priority and the resources that should be allocated to working with each qualified leads. The analysis should cover four main areas:

a) The types of business **and** business functions

- Business Type
 - Flagship firms (Blue Chip) and Original Equipment Manufacturers
 - Suppliers (Tier 1, 2 and 3)
 - Service Providers
 - New Entrants and New Ventures
- Business Function
 - HQs, Regional HQ, Subsidiary
 - Sales/Marketing; Logistics Hub; Service Centre
 - Cost Centres/Revenue Centre Profit Centre - Strategic Business Units

b) The bases (s) of competition, the market and competitive strategy of the business

- Types of Competition

It will important to classify the prospect in relation to its relevance to Kazakhstan and the likelihood of making an investment in the Country in order to focus resources on those investments likely to achieve the greatest impact on the Kazakh economy.

- Natural -Resource based
- Efficiency based
 - o Cost-based
 - o Time-based
 - o Quality-based
- Innovation-led

c) The core activities of the business, which drive business competitiveness and productivity gains

- Analysis of product/markets

d) The strategic linkages, **which** enhance and augment the competitiveness and productivity of the business

- Types of Linkage
 - Real/Virtual
 - Vertical/Horizontal
 - Local/ International
 - Formal/Informal
 - Strategic/Functional

Typically, the following information will be available for each qualified lead with a defined project:

- Name of company
- Update on background and status of the company
- Update on key individuals and their roles
- Date and number of contacts with company and summary of the results
- Summary of potential project
- Scale of possible investment project (value and jobs)
- Estimated timescale for decision
- Key factors which will determine whether the company invests in Kazakhstan

- Categorisation of project (as set up in the list of KPIs above) according to the likely timescale of the decision.
- Date and number of contacts with company and summary of the results
- Details of inward visits (taken place or planned)
- Next action, date and by whom

Step 3. Proposition development so that Kazakhstan is on the client's short list

Key activity: The development/ adaption of an integrated proposition (with options) setting out the case for investing in Kazakhstan taking into account an individual client's needs and concerns (or for discussion with new clients)

Main outcome: The presentation of a completed proposition, which fully addresses the needs of the client

Key performance indicators:

- Number of new propositions prepared and submitted to qualified clients in period
- Number of inward visits by qualified clients in the period (analysed by region in Kazakhstan, by sector and by country of origin)
- Number of clients who include Kazakhstan in their shortlist of possible locations

There will be a number of sub activities that will need to be carried out to support the development of propositions to clients. These are set out in the table below:

Sub activity	Performance outputs in period
Development / updating of general propositions to support the promotion of Kazakhstan	Number of general propositions completed/ updated in period
Overall business environment of Kazakhstan and the shortlisted regions	Number of business environment reports prepared
Market analysis/ proposals	Number of market analyses undertaken
Supplier analysis	Number of supplier analyses undertaken
Locational environment/communications	Number of locational analyses

and transportation options	prepared
Property options	Number of property reports prepared
Skills analysis	Number of skills analyses carried out
Financial proposals	Number of financial proposals submitted
When a client decides not to shortlist Kazakhstan, it will be critical to carry out an analysis of the reasons and lessons learnt	Number of reviews carried out to determine the reasons why Kazakhstan was not shortlisted.

Main outcomes

These activities will be critical to ensure that Kazakhstan as a whole and particular locations are on the client's shortlist. Both Kaznex Invest and the ISCs will need to liaise closely with the client to understand the key parameters that would need to be met.

Knowledge building about the customer

The critical issue here is to ensure that Kaznex Invest and its partners have a good understanding of what the client regards as being critical to its location decision. Thus it will be important to build up an understanding of the key factors, which will influence the location decision in terms of:

- Business environment of the Country and the shortlisted region(s)
- Markets to be served, including export tariffs and restrictions
- Raw materials and other key supplies, including import tariffs and other restrictions
- Locational environment (for the business and for foreign and local staff) and issues around logistics (for people, supplies and finished product)
- Availability of serviced site and/or premises factors (including access to utilities)
- Access and cost of skilled labour and the range of training provision available in the area
- Quality and range of support services
- Access to finance, including financial incentives available
- Level of support and commitment by national and local leaders

Step 4. Securing a positive investment decision by the client

Key activity: The negotiation of a final offer to secure a positive decision by the company to invest in Kazakhstan.

Main outcome: The signing of an agreement setting out the company commitment to invest in Kazakhstan and the support to be provided by the Kazakh Government.

Key performance indicators:

- The number of investment decisions made in the period (analysed by region in Kazakhstan, sector and country of origin)
- Value of investment to be made by the company in the investment project
- Number of jobs expected to be created by the investment

As part of the process of securing an investment commitment by a client, there are likely to be a series of discussions and negotiations with various bodies in Kazakhstan. These sub activities are listed below:

Sub activity	Performance outputs in period
Inward visits	No of inward visits by clients in period
Support, participation and review of the company's business plan	Number of clients who have discussed their business plan
Formal offer with a financial component	No of final offers made in period
Informal intervention by appropriate senior officials, Ministers and the Presidency	No of clients who have liaised with senior officials and ministers in the period
When a client decides not to invest in Kazakhstan, it will be critical to carry out an analysis of the reasons and lessons learnt	Number of reviews carried out to determine why a client decided not to invest in Kazakhstan

Main outcomes

These activities will enable the Kazakhstan authorities to determine what level of support to offer the client to secure their commitment to invest in Kazakhstan. It would need to take account of what incentive (if any) would be needed to secure their commitment and whether that level of support can be justified, having carried out a cost benefit analysis of the investment.

Knowledge building about the customer

Making an assessment on level of investment to be made by the Government depends on having built up a good understanding of how the client makes investment decisions (and by whom), and what other alternative locations, if any, are under consideration. It will also be critical that during these discussions the client provides good information on the investment and its phasing, how sales and employment are expected to increase over time and what assumptions have been made to enable a cost benefit analysis to be carried out.

Step 5. Project implementation - start-up phase

Key activity: the provision of project management support to enable each foreign investor to complete their investment project on time and within budget.

Main outcome: operations are able to commence on schedule and within budget

Key performance indicators: date of first output compared to initial target date

Sub activity	Performance outputs of each project in period
Financial agreements	Days ahead or behind project plan
Site acquisition and planning	Days ahead or behind project plan
Premises design and building	Days ahead or behind project plan
Supply of equipment for operations	Days ahead or behind project plan
Recruitment and training of initial staff	Days ahead or behind project plan
Obtaining all necessary certifications, permits and licenses	Days ahead or behind project plan
Supply of raw materials and components	Days ahead or behind project plan
Commissioning and start-up of production	Days ahead or behind project plan

Main outcomes

Assistance centrally and in the region will be required to help the client overcome unforeseen problems and secure the cooperation and speedy response by various organisations whose support is critical to ensuring that the client meets their project plan and starts production on time. Meeting the project plan is both critical to the client as well as enhancing the image and reputation of the region and country as a whole, as a place with a responsive business environment.

Knowledge building

It is important to build up knowledge, contacts and experience centrally and at the regional level on how to deal with a wide range of business related issues critical to the success of a new investment project. All delays and interventions need to be carefully logged and lessons learnt on how to overcome bureaucratic, procedural and operational problems.

Step 6. Project implementation - Scale up

Key activity: The build-up of sales and production of each project

Main outcome: Each project meets its sales and employment targets

Key performance indicators: sales and gross value added in the period and annually, and number of sustainable jobs created (full time equivalents) for each project.

Sub activity	Performance outputs of each project in period
Plant capacity	% utilisation of the production capacity of the plant in period
Recruitment of staff	New staff taken on in the period. Number of unfilled vacancies
Provision of training	Investment in training and number of people who have completed formal training in the period
Supply of raw materials and components	Number of supply problems resolved in the period

Main outcomes:

Scale up will depend on the ability of the investor to meet their domestic and export sales targets, the recruitment and subsequent training of suitable staff and securing local suppliers with the capacity to meet the company's standards in terms of quality, reliability and price. These activities will need to be closely monitored and help may be required to enable the company to secure suitable staff, access training and address critical supply problems.

Knowledge building:

Effective support to foreign investors at the scale up stage depends on the availability of knowledge of the local and regional business environment (such as key suppliers, access to specialist consultants and training, resolving critical regulatory requirements etc). This knowledge is frequently critical in finding solutions to problems faced by the investor during the scale up process.

Step 7. Aftercare activities

Key activity: regular reviews with investors to discuss their forward plans, identify opportunities to embed operations in the local area and secure follow on investment projects

Main outcome: increased supplies from the region and follow-on investment projects leading to additional jobs being created

Key performance indicators

- Number of aftercare reviews carried out with investors in the period
- Value of additional supplies from the region and jobs created as a result
- Number and value of follow on investment attracted and number of jobs created

Sub activity	Performance outputs in period
Local supplier development programme	Number of local suppliers assisted Increase in value of supplies from local firms and jobs created
Support for follow on investment project	Number of follow on projects under review

Main outcomes:

Retention (and expansion) of a foreign investor in a region can be enhanced by actions to embed the company in the local area. This can be achieved in many different ways, such as via staff training, innovation programmes and through local supplier development programmes to increase the level of supplies sourced locally.

Over time a significant proportion of investment projects arise from foreign firms already based in the country. It is critical that these project opportunities are identified at an early stage to ensure that the decision is made to invest in Kazakhstan and not elsewhere or deferred. This will frequently depend on the perceived financial and operational success of the initial investment, and the availability of government support for a follow on investment project.

Knowledge building

Effective aftercare work leading to the retention and expansion of foreign investors requires intelligence to be gathered at both *enterprise* level (the whole company) and *establishment* level (the business unit). It depends on regular visits to key investors in each region, to monitor progress and build up a deep understanding of the dynamics of the foreign firm and the position of the local plant relative to other parts of the business. This requires the development of close relationship both with the local plant management and key decision makers elsewhere in the parent organisation.

2.6 Evaluation of Impacts

Conventionally impact assessment is undertaken as part of either, ex post or ex ante assessment. This may be undertaken at the level of the individual project, programme, sector, region or whole economy. Since this is concerned with the investment project cycle, so the relevant level of assessment is that of the individual project.

Ex-ante analysis is concerned with the estimation of “anticipated” impacts. Ex post analysis is concerned with the calculation/estimation of “actual” impacts. The time frame for analysis would be

determined by investment time horizon for the investment project. Ex-ante impact assessment, for example, would typically occur after the investment project had become fully operational. But this timeframe can and does vary significantly. For example, for a new investment in software this may be a matter of months; for a new investment in a “next generation” wafer fabrication facility (or a new automotive assembly plant) this may be a matter of years.

The type of measure which typically is used to capture key impacts on the wider economy varies according to specific circumstances but can include the following. Typically, evaluation KPIs will relate to longer time frames of a year or more and may be collected at the project, program, regional, sector and national levels.

1. Main *economic metrics* taking into account both the positive and negative direct, indirect and induced effects associated with FDI:
 - Additional investment
 - Additional sales/output
 - Additional exports
 - Additional GVA
 - Additional jobs created/safeguarded
 - Additional high-value jobs created/safeguarded

International experience has established a correlation between certain FDI traits and positive additionality. These traits are summarized in Annex 3. Monitoring activity should be informed by this fact as there are evaluation benefits if the monitoring systems holding investor details are designed to capture these investor traits from project inception.

2. *Other economic metrics* may also be relevant, depending on the economic structure and stage of economic development reached by the host country. For example:
 - The level and rate of change in the value of local content in the purchasing of investors
 - The level and rate of change in training (in total and per employee) undertaken by investors relative to sector/national averages
 - The level and rate of change in productivity of investors relative to sector/national averages
 - The level and rate of change in capital investment relative to sector/national averages
 - The level and rate of change in sales relative to sector/national averages
 - The level and rate of change in exports relative to sector/national averages
 - The level and rate of change in GVA relative to sector/national averages
 - The level and rate of change in product-related R&D relative to sector/national averages

- The level and rate of change in process-related R&D relative to sector/national averages
 - Various “intensity” metrics (e.g. export, import, energy, labour, skills, capital and knowledge intensities) relative to sector/national averages.
3. Alignment with national goals and objectives for the economy, for example:
- Macro Goals
 - GDP, GVA and Productivity Growth
 - Investment (GDFCF)
 - Balance of Payments and Trade Structure (Reduce any structural imbalance)
 - Re-balancing/restructuring the economy (Diversification, Key Sectors)
 - Market structure and performance (competition policy)
 - Resources, Capacities and Dynamic Capabilities (Regional/Sector focus)
 - Improve the technology and innovative capacity of firms;
 - Introduce new working practices and a more dynamic and entrepreneurial managerial style
 - New employment opportunities (high value jobs) and enriched human capital;
 - Linkages, spill-overs and clusters
 - Public services and utility upgrade.
 - International Linkage and Citizenship
 - Better access and linkages with the global markets
 - Greater compatibility with a more efficient international division of labour
 - Greater exposure to international customs and practices
 - Social, Political and Cultural Objectives

The definitions, principles and metrics described above are generic and part of proven good practice. They are not immutable laws. This is a resource of ideas which policymakers and practitioners can take and adapt to help meet the challenge of developing and improving the system of inward investor support in Kazakhstan.

From the perspective of good evaluation practice, it is important to understand in what precise sense the above metrics are “additional”. The logic is as follows:

The primary economic rationale for intervention by any government lies in the extra value which it can add to the market activity of the private sector;

In essence this concept can be thought of as the way an intervention (e.g. government-funded support activity to new and existing investors) can “improve and add value to the process of adding value”.

Thus in a market economy, maximizing “net” additionality through any intervention is the objective function which any government ought in theory to maximize.

In practice the calculation of “net” additionality is often challenging as it necessarily involves the measurement/estimation of multiple effects, both positive and negative. Conventionally, “multipliers” are used to capture “indirect” and “induced” effects, especially:

- *Supply linkage effects* (i.e. the indirect benefits to local suppliers of goods and services);
- *Income effects* (i.e. the induced expenditure benefits derived from the income of those affected by the direct and supply-linkage effects).

“Net” outcomes and impacts require “crowding out”, “substitution” and “leakage” effects to be taken into consideration. Ideally, for outcomes and impacts to be “additional” and to avoid “deadweight”, the “net” outcomes and “impacts” of evaluation should be compared with a baseline scenario where “no intervention” has occurred. In summary the main effects, which should be considered in any calculation/estimation of “net additionality”, are:

- direct effects
- indirect effects
- induced effects
- multiplier effects
- substitution effects
- displacement effects and
- dead-weight effects etc.

For illustrative purposes, and using employment as the preferred impact measure Box 1 below shows how some of the effects are interpreted and applied.

Box 1: Direct, Indirect and Induced Effects Using Employment as an Example

1. Impact Metric: Employment Created/Safeguarded associated with FDI

2. Direct Employment Effects:

Total number of people employed in a foreign affiliate

3. Indirect/Induced Employment Effects

- **Vertical effects**
- Employment indirectly generated among existing local suppliers (raw materials, components, services) or customers (i.e. distributors, service agents etc.)
- Employment induced by new firms created/established as a result of FDI and either up or downstream from FDI (i.e. suppliers or customers)
- **Horizontal effects**
 - Employment indirectly generated in local firms competing in the same industry or in other complementary industries
 - Employment induced by new firms formed/established as a result of FDI which compete in the same industry or in other complementary industries
- **Wider “Macro” effects:**
 - Employment indirectly generated by the spending of workers/shareholders in foreign affiliates and in new firms formed/established as a result of FDI

2.7 Development of Baselines and Targets

Before setting performance targets, it will be necessary to carry out a baseline study to obtain an understanding of the makeup of foreign investors that are currently operating in Kazakhstan. This should include details of the investor characteristics, the process and key factors that led to them to decide to invest (including follow on investments) in Kazakhstan. It will also be important to obtain feedback on the role that Kaznex Invest and other Kazakh national and regional bodies and agencies played in their decision to invest and subsequently during the implementation and aftercare phases. It will also be necessary to collate information on the number and make up of investment enquiries, including their origin, characteristics of the firm and their interest in investing in Kazakhstan and the outcome.

Based on this baseline analysis, it will then be possible to put forward realistic and meaningful performance targets for the main key performance indicators suggested under each stage and step of the FDI project cycle, set out above.

2.8 Institutional Responsibilities

Monitoring and evaluation of FDI-related activity is typically undertaken by the arm of government charged with responsibility for the development and implementation of policies to attract and retain FDI. It is critical that the monitoring and evaluation framework forms part of an integrated national policy for the attraction and retention of foreign investment. This needs to take into account the makeup of investments attracted to date, the types of investment which will have most long term economic impact on the economy, nationally and regional, and reflect the makeup and characteristics of the mobile international investment market. The reporting and evaluation framework and key performance targets frequently form part of the financial agreement between the appropriate government department and the national and regional bodies charged with investment promotion and aftercare programmes. In the case of Kazakhstan, this involves the Ministry of Economy (responsible for overall strategy), the Ministry for Industry and New Technology and Kaznex Invest (responsible for implementation and investor support nationally) and Kaznex Invest and the Akimats (responsible for investor support at the regional level).

2.9 International Experience

Two learning models are included in this report. A very detailed model from Scotland which has similar characteristics to the institutional set-up in Kazakhstan is shown in annex, while a shorter model from Jamaica is shown in Box 2

The good practice described in the learning models is both practitioner-based and proven theory. It does not represent a ready-made off-the-shelf solution and is not intended to be excessively prescriptive. This is a resource of information and ideas which policymakers and practitioners can take and adapt to help meet the challenge of developing and improving system of inward investor support in Kazakhstan.

Box 2. The Jamaica Promotions Corporation (JAMPRO)

Leading NGOs such as the OECD, the IMF, UNCTAD and the World Bank are strong advocates of the benefits of monitoring and evaluation of FDI as a fundamental component of international best practice¹. UNCTAD, for example, promotes international best practice in all aspects of attracting export-oriented foreign direct investment (FDI)² through its annual Investment Promotion Awards³ where the Jamaica Promotions Corporation (JAMPRO) was one of this year's major award winners.

JAMPRO is Jamaica's national trade and investment promotion agency. According to JAMPRO's most recent annual report, JAMPRO pursues an FDI-attraction strategy⁴ focused on six priority sectors: ICT, Tourism/Hospitality, Creative Industries, Agriculture/Agri-business, Renewable Energy, Manufacturing and Mining. In fiscal year 2010/11, JAMPRO attracted and/or facilitated capital expenditures by inward investors worth J\$ 11.03 billion across all sectors and supported the creation of 7,034 jobs.

JAMPRO attaches high importance to the monitoring of its own activities where the FDI-related focus is on:

- lead-generating activities and marketing; and
- facilitation of investment projects by new/existing inward investors.

A significant number of discrete activities are monitored for management purposes under these main activity headings: there are, for example, around 15 discrete action and tasks to FDI lead-generation which JAMPRO has identified for monitoring purposes. JAMPRO uses a "balanced scorecard" approach to measure organisational performance.

Evaluation activity (for example, ex-ante evaluation of strategic investment projects receiving tax payers' support) is also one of JAMPRO's primary responsibilities. Final approvals, however, are the responsibility of the Ministry of Industry, Investment and Commerce (JAMPRO's sponsoring Ministry) and other relevant ministries (e.g. The Ministry of Tourism for tourism projects and the Ministry of Agriculture for agricultural projects).

The main forum within JAMPRO for FDI-related monitoring is the fortnightly forecast meeting which brings together managers from the "lead-generation" and "project facilitation" teams of the International Promotions Division. The progress of each project is reviewed on a sector by sector basis.

Quarterly updates are prepared for the JAMPRO Board and JAMPRO's sponsoring Ministry. These updates report on "progress against target" under JAMPRO's balanced scorecard. "Forecast updates" are also provided on a bi-annual basis to JAMPRO's sponsoring Ministry for two performance indicators

¹ See, for example, https://www.wbginvestmentclimate.org/toolkits/investment-generation-toolkit/module8_overview.cfm.

² Much of this investment is known to be linked with international trade patterns and the growth of global value chains (GVCs) which now contribute to 80 per cent of global trade.

³ There were three joint winners of UNCTAD's Investment Promotion Awards in 2013 which a) attracted quality projects b) facilitated their countries' access to global value chains (GVCs)³ and c) have benefited from such value chains. The winners were: Jamaica, Latvia and Oman. Export-oriented FDI projects were secured by these winners across a variety of sectors in manufacturing and services because of their a) innovative investor targeting and b) the efficient use of public-private partnerships involving local centres of talent and local suppliers.

⁴ JAMPRO's forward strategy and corporate plan for 2011-2013 is itself set with the framework of Jamaica's "Vision 2030" and the "Medium Term Socio-Economic Policy Framework (MTF). *Vision 2030 Jamaica* is the strategic guide or roadmap to achieve higher levels of economic growth and development which are sustainable. Through short- and medium-term priorities, policies and programmes which are captured in the Medium Term Socio-Economic Policy Framework (MTF), the Plan provides dynamism and flexibility. This framework for implementation facilitates consistent monitoring and evaluation and allows domestic as well as global changes to be reflected and incorporated in the planning process.

regarded as key, namely:

- Capital Expenditure (CAPEX);
- Jobs Created (permanent and temporary).

Particular effort has gone into the development of JAMPRO's forecasting system. Previously, multiple reports were produced on an ad hoc basis to justify future expectations externally regarding JAMPRO's FDI-related performance and impact. This proved costly and inefficient. "Standardised reports" are now regularly produced for key stakeholders and partners⁵. This approach has only been made possible because of the improved system of forecasting which JAMPRO has now established. And JAMPRO now provides trusted and authoritative inputs on Capex and job creation to the government's main planning forecast for the Jamaican economy.

The success of this system rests upon the steady flow of robust and reliable business intelligence gleaned directly from inward investors and captured via JAMPRO's monitoring activities: in essence, excellent long-term client relationships are the bedrock of this system.

The main lessons for the organisation from FDI-related monitoring have been:

- The development of a well-focused, results-based organisational culture in which regular and consistent project monitoring has been central;
- The cross-fertilization of information and ideas through peer-group review of projects; this has nurtured and supported the inter-team transfer and sharing of
 - project-management problem solving;
 - client-focused learning on a common shared basis; and
 - business intelligence and insight based on "client need".
- Stronger team building and raising the average performance of individual team members as well as overall team performance; and
- Improved "forecast accuracy" which has significantly strengthened JAMPRO's external credibility with key partners and stakeholders.

Critical to the above has been the adoption of a "strong international marketing" culture which has placed "the client relationship" at the heart of all that JAMPRO tries to do. Rather than a service-delivery arm of government, JAMPRO overtly strives to become a "trusted advisor and business partner" which adds measurable value to the inward investment attracted to Jamaica. In this process JAMPRO has come to value "world-class selling skills" above all others.

⁵ These include: The Ministry of Industry, Investment and Commerce, The Bank of Jamaica, The Planning Institute of Jamaica (a government agency with a lead role in economic research, forecasting and policy development), the National Competitiveness Council (a public-private sector partnership established to promote improvement in Jamaica's business and investment climate), the private sector, the media and international organizations such as the IMF.

3. MONITORING AND EVALUATION OF INWARD INVESTMENT IN KAZAKHSTAN

This chapter examines the current system of monitoring and evaluation of inward investment in Kazakhstan and seeks to identify the current weaknesses with relation to international good practice.

3.1 Introduction

It is clear that the broad trends in inward investment are monitored by the National Bank of Kazakhstan. However, the monitoring is primarily concerned with all forms of inward investment and that for the primary purpose of preparing national accounts on a quarterly and annual basis. The data presented tend, therefore, to be highly aggregated (see <http://www.nationalbank.kz/?docid=469>) and lack the features, traits and characteristics relevant to the type of monitoring which is necessary for detailed management.

Although the Ministry of Economy is responsible for evaluation, the amount of detailed work appears very limited in scope and not targeted at the management of the inward investment process.

Discussion with the Institute of Economic Research confirmed that little, if any, formal monitoring and evaluation of inward investment is undertaken in Kazakhstan on an independent basis by third parties. That which is undertaken is fully focused in supporting government in its efforts to improve Kazakhstan's international profile amongst overseas investors and other national governments.

Accordingly, the focus of this chapter is primarily on the activities of Kaznex Invest. In particular, the purpose here is to provide a brief description of the monitoring and evaluation activity of Kaznex Invest.

3.2 What Monitoring does Kaznex Invest Undertake?

The monitoring activity which Kaznex Invest undertakes is driven by the information held on its main database. This database has been established in Kaznex Invest for the use of staff, civil servants and Ministers at the highest level. As at June 2013, this database held records on 267 investment projects and 551 investors.

It is important to note that the primary purpose of the database is to track the progress of “investment projects” where the government is looking to attract foreign capital, usually on a joint-venture basis, in order to help realise a pre-defined investment opportunity. The database is not, therefore, designed to function as a tracking device for all overseas investment in Kazakhstan or to monitor, track and measure the efficiency and effectiveness of all dedicated forms of government support for new and existing inward investors.

The current breakdown of investment projects by type/ status is as follows:

- Projects requiring investment -90
- Promising Projects - 0
- Current Projects – 1

- Completed Projects - 1
- Niche Projects - 174
- Withdrawal Project – 1

For marketing purposes, summary details of niche projects and projects requiring investment have been put on the website of Kaznex Invest (see <http://baseinvest.kz/project>). These details include the project name, sector, region, joint-venture partner, the investment requirement (in USD million) and jobs created during the construction and operational phases of the investment. This gives potential investors some initial understanding of the scale and type of projects seeking capital and an ability to register any interest they may have on-line.

Information from Kaznex Invest shows that within the current system six primary functions can be accessed from the main toolbar:

- An e-mail function
- A browse and interrogate function
- A function to create a “project record”
- A function to create a “investor record”
- A function to file notes and minutes of meetings with investors
- A function to create reports.

Annex 2 describes and illustrates in summary form our current understanding of the scope of information which may be accessed via the above functions which are most relevant to monitoring and evaluation.

3.3 Filing Minutes and Notes of Meetings with Investors etc.

This is a more dynamic function which operates in real time. It supports the monitoring function but is essentially a key part of Kaznex Invest’s real-time project management.

The meeting with Kaznex Invest on the 27th of June 2013 well illustrated the operation of this function in relation to the recent investment in Kazakhstan announced by Toyota. During interview with the Regional Director for Asia in Kaznex Invest who led on the Toyota project, it became very apparent that the project database is used in a highly disciplined:

- All meetings with investors are taped in real time and transcripts produced.
- A system of co-signature approval is used with sign off at Director level in Kaznex Invest and by the investor.
- The minute of the meeting is then stored on the database where it may be accessed by senior staff in Kaznex Invest, MINT officials on the Investment and Industry Committees and Ministers etc.

The Regional Director for Asia in Kaznex Invest also mentioned that in general 5-6 minuted meetings are added daily to the database: Kaznex Invest takes lead responsibility for drafting minutes of meetings in the case of larger and more significant investors. This position apparently reverses for meetings with investors on the smaller and more modest projects.

This is a potentially rich source of investor intelligence. While largely used to monitor the detail of project progress in real time, there may well be other uses in connection with investor support and problem solving and the possible early generation of new investment leads. It still must be determined whether and how this source of investor intelligence is harvested (albeit systematically or on an ad hoc basis) for such purposes and whether the potential exists to develop the system more explicitly for CRM purposes.

3.4 Producing Regular Reports for Management Purposes

Based on the response of Kaznex Invest to OECD's information request of 5th May 2013, our understanding is that "project reports" and "investor reports" are regularly prepared (e.g. on a monthly, quarterly and annual basis) for senior management. These appear to provide an overview analysis of activity. These reports appear to follow a set format and furnish information on a number of different metrics and features which are summarised below.

1. Project Reports by:

- Industries
 - Quantity
 - Project cost
 - Required sum of investments
 - % in total
 - Created jobs:
 - Construction
 - Operations
- Regions
 - Quantity
 - Project cost
 - Required sum of investments
 - % in total
 - Created jobs:
 - Construction

- Utilization
- Project Types
 - Projects requiring investments
 - long-term projects
 - ongoing projects
 - Implemented projects

2. Investors Reports by:

- Quantity
- Status
- Decisions
- Industry
- Region
- Region – status

3.5 Conclusions

Creating an Investor Baseline

Based on the above, present understanding of the current position strongly suggests that it will first be necessary develop a comprehensive and robust understanding of the size, make-up and performance of the foreign investor community attracted to the country.

In particular, for the strategically most important projects to the economy, it will be necessary to build up an understanding of the key features and characteristics of the foreign investors and the circumstances that led to the investment coming to the country. This baseline information provides the foundation which will enable:

- the impact of this investment on Kazakhstan’s economy to be assessed (taking displacement, substitution and multiplier effects, for example, into account);
- inward-investment performance targets to be set going forward.

Importantly, creation of this baseline will enable the transformation of the existing project-oriented database to one that is investor focused and increasingly driven by strategic marketing factors and the investor cycle model outlined in this report. This baseline should build on the investor information held on the Kaznex Invest project database.

Extension of Key Metrics:

There is a related need to extend the key metrics for evaluation to cover, for example, net exports, high value jobs, new knowledge intensive activities etc as well as second and third order impacts – such as supplier linkages, displacement and substitution effects on the economy. These metrics are needed to allow the net additionality of projects to be assessed at the national, regional and sector/industry levels.

Introduce More and Better Project Milestones

Based on the above there is also a need to introduce more detailed and appropriate pre and post implementation milestones to enable progress of existing projects to be better checked on a systematic basis to facilitate timely operational adjustments.

3.6 Key Issues

In order to develop the monitoring and evaluation system, three key issues appear

Issue 1: A stable pattern of roles and responsibilities

Because of the shape of the institutional landscape and the organizational change which is underway in Kazakhstan, a stable pattern of roles and responsibilities has yet to emerge around support for new and existing inward investors.

This seems to be the single largest obstacle to the more rapid adoption of a unifying results-based management approach to the design and delivery of more efficient and effective support. As the good practice outlined in this report indicates, more effective systems for monitoring and evaluating inward investment support have a potentially key role to play as institutional and organization learning tools which help pinpoint where current performance is good and where opportunities for improvement may lie on a system-wide basis.

Issue 2: Promotion and Adoption of Best Practice on an Organizational Basis at National Level

When assessed against good practice, the orientation, structure and use of the Kaznex Invest database appears sub-optimal for future use:

- The present orientation of the Kaznex Invest database towards “project-based” management and delivery, rather than being “investor oriented” is a possible major constraint: in particular, this makes the full adoption of a results-based management system around the inward investment cycle extremely challenging to implement.
- Moreover, the information held in the “project records” and “investor records” of the Kaznex Invest database is highly factual. There is little held on record that would appear to help Kaznex Invest understand investor attitudes and expectations. This could mean that the prioritizing of investor support is not as well informed as it could or should be.
- Indeed, enabling the present system to become more highly geared towards “knowing the investor” (rather than knowing facts about the investor) is a potentially key challenge and opportunity for Kaznex Invest.
- In the above context, however, the real-time function for storing minutes and file notes may be a potentially rich sources of investor intelligence which could be better harvested. It should be established that appropriate protocols exist for recording and using the information generated and held in this function.
- Compared with good practice:
 - Key inward investor traits which help inform formal evaluation are not yet captured on the present database.
 - Many of the monitoring metrics suggested by good practice (e.g. those based around the inward investment cycle) are not yet collected and held at present; and
 - When assessed against good practice, the performance and impact metrics which are held appear to be of limited value to any formal evaluation. (For example, key metrics such as

gross value added, export levels and intensities, local content levels, the number of high-value jobs created and safeguarded etc. are absent.)

- The above points require that policymakers and practitioners share a clear and adequate view of what inward investment is expected to contribute to the growth and development of the Kazakhstan economy, beyond bringing in more capital investment, and this needs to be made more explicit than it is at present.
- The effectiveness of the protocols for maintenance and quality of database records still has to be determined before any overall assessment can be made of the degree of reliance of the content of the database.

Issue 3: Promotion and Adoption of Best Practice at Regional level

The introduction of Investor Service Centres (ISCs) is clear evidence that the regional dimension to inward investor support is experiencing potentially significant change and is growing. Already it is obvious that a number of challenges related to data gathering and access will have to be faced as this change process continues to gather momentum:

- Currently, the ISCs which have been established have no access to the Kaznex Invest database. When and how will this change?
- No systematic client management system has been established to date. The ISCs recognize the need for a system which is fully integrated with Kaznex Invest to enable them:
 - to respond to enquiries and to develop their relationship with potential investors and their advisers in a systematic and professional way;
 - to track, monitor and evaluate the efficiency and effectiveness of the support they provide to inward investors.
- The regional dimension is a growing source of demand and supply for higher-value intelligence on inward investors. It seems likely, therefore, that this will add both volume and complexity to the data management of the Kaznex Invest. And the corollary to this is that it seems equally likely that more will be asked of Kaznex Invest in terms of its capacity and capability to select and prioritize investment opportunities.
- Following good practice, the organizational learning which underpins more sophisticated project selection and prioritization should be informed by more effective monitoring and evaluation. In this context, the regional changes which are currently underway could represent an important opportunity for change and improvement.
- However, it is not yet certain to what extent Kaznex Invest will take the lead in developing a common client management, monitoring and evaluation system to ensure a consistent approach to client handling is adopted centrally and by each region. Appropriate training of the ISCs is an important related matter which also needs to be addressed.

4. RECOMMENDATIONS

As Kazakhstan continues along a development path towards an open, market-oriented economy which is fully integrated with the wider international economy, the process of attracting direct investment will require a shift from a supply-based approach involving the targeting of investors for predetermined projects, towards a more market-orientated approach based on the attraction of foreign investors with investment projects which are mobile and can be contested across borders.

This will require the key institutional and organisational actors involved to develop a more strategic and well-structured marketing approach towards the attraction, anchoring and upgrade of FDI based on the 7 step investment cycle set out in the report. There is also a strong associated need to cultivate deeper understandings amongst key partners and stakeholders, especially in the public sector, of the characteristics, needs and forward requirements of each foreign investor. It is suggested that the recommendations which are set out below will assist in this transformation process.

It is recommended that there is for the first-time adoption of a comprehensive monitoring and evaluation framework for FDI. This is a critical tool to promote systems-wide learning and improvement, drawing on best international practice. Going forward, it will improve the efficiency of the inward investment attraction and retention process, taking into account the growing number of partners and stakeholders at the national and regional level now involved in the process. This will help ensure that expected and actual outcomes and impacts from foreign direct investment attracted to Kazakhstan can be captured and measured and enable the formal assessment of the net economic contribution which FDI makes in practice to Kazakhstan. This will also provide valuable feedback on the setting of future policy and programme priorities and targets.

Analysis of the present position strongly suggests that it will first be necessary to develop a comprehensive and robust understanding of the size, make-up and performance of the foreign investor community attracted to the country. In particular, for the strategically most important projects to the economy, it will be necessary to build up an understanding of the key features and characteristics of the foreign investors and the circumstances that led to the investment coming to the country. This baseline information provides the foundation which will enable:

- the impact of this investment on Kazakhstan's economy to be assessed (taking displacement, substitution and multiplier effects, for example, into account);
- future inward-investment performance targets to be set.

Importantly, creation of this baseline will enable the transformation of the existing project-oriented database to one that is investor focused and increasingly driven by strategic marketing factors and the investor cycle model outlined in this report. It is suggested that this baseline should build on the investor information held on the Kaznex Invest project database.

There is a related need to extend the key metrics for evaluation to cover, for example, net exports, high value jobs, new knowledge intensive activities etc as well as second and third order impacts – such as supplier linkages, displacement and substitution effects on the economy. These metrics are needed to allow the net additionality of projects to be assessed at the national, regional and sector/industry levels.

At the same time, based on analysis of what currently is held on the Kaznex Invest database, there is a need to introduce more detailed and appropriate pre and post implementation milestones to enable progress of existing projects to be better checked on a systematic basis to facilitate timely operational adjustments.

As a first step towards implementing such a framework, it is recommended that the Ministry of Economy, the Committee for Investment in MINT and Kaznex with the full support of the Foreign Investors' Council should agree to establish a formal monitoring and evaluation framework and allocate the necessary resources for establishing a Monitoring and Evaluation Unit in Kaznex. The Unit would take the lead in its development and implementation, based on an agreed action plan with defined tasks, deadlines and allocation of responsibilities.

It is suggested that the action plan will need to include the following steps:

1. Undertake an institutional and organisational mapping exercise to determine the main stakeholders involved in the attraction and retention of FDI in Kazakhstan
2. Set up a working group made up of all the key bodies involved in the process to secure their commitment to a) the rationale for and b) principles of a comprehensive national monitoring and evaluation framework for Kazakhstan and guide its design and implementation. The working group would be serviced by the Monitoring and Evaluation Unit.
3. It is suggested that the working group should be chaired by the Ministry of Economy and should include key people from the Committee of Investment in the Ministry of New Technology, Kaznex, the National Bank, representation from at least one region with an Investment Support Centre. It should also include other organisations actively engaged in the attraction of inward investment, such as the President's Office and the Ministry of Foreign Affairs (and its network of Kazakh Embassies) and the most important bodies involved in the implementation and aftercare of FDI projects such as the National Agency for Technology Development and Kazakhstan's Sovereign Wealth Funds, and national bodies connected with natural resources and mining.
4. The purpose of the working group would be to:
 - a. agree the main principles and key components of the monitoring and evaluation framework, building on the principles set out in this report,
 - b. agree the action plan, with defined tasks, deadlines and allocation of responsibilities to be prepared by the M and E Unit and
 - c. monitor and manage its implementation.
5. Prepare a working definition of FDI based on the OECD definition, as part of the development of a common baseline understanding for the purposes of monitoring and evaluation
6. Create a comprehensive baseline understanding of foreign investors currently operating in Kazakhstan, including:
 - The key investor characteristics which positively correlate with net additionality; and
 - The method of market entry selected by the investor, the key location factors, and any other material factors/drivers influencing the decision to invest in Kazakhstan directly or indirectly.
7. This baseline will draw on the existing database of investors held by Kaznex, supplemented from other national and regional sources. These characteristics are set out in section 2 of the report. In sourcing data, it is likely that this will need to be gathered at the enterprise, establishment and project levels
8. Prepare and agree a monitoring and evaluation strategy which builds on the principles outlines in this report and takes account of the inputs by all the main participants in the process, including overseas, national and regional bodies.
9. Review and agree the suggested input, output and result KPIs under the seven phases of the FDI Project Cycle set out in section 2.
10. Develop more detailed and appropriate pre and post implementation milestones for existing projects to enable progress to be checked on a systematic basis and timely operational adjustments to be efficiently made.
11. Review the existing database and identify information gaps, and put forward proposals on how these gaps will be addressed over time. Importantly it will also be necessary to develop protocols

- covering the gathering, maintenance and update of information, drawing on international best practice
12. Identify and make changes to the CRM system to accommodate the additional information required
 13. Draw out from the existing data baseline information to enable future targets to be set based, as far as possible, on performance to date
 14. Train staff to collect and record the additional information required
 15. Introduce a system for the regular measurement and reporting of KPIs, to be phased in over time as the full seven step FDI project cycle is introduced and new data becomes available
 16. Introduce a process for carrying out ex ante and ex post evaluations at a national, regional and sector/industry levels. This will make it possible to assess the contribution which a) strategic investment projects, b) strategic investors and c) FDI as a whole is making to the national growth equation and enable more tailored policies and programmes to be developed accordingly.

LEARNING MODEL: INWARD INVESTMENT AND THE OUTPUT MONITORING FRAMEWORK (OMF) OF THE SCOTTISH ENTERPRISE NETWORK

Introduction

The purpose of this chapter is to introduce a relevant learning model based on international good practice in monitoring and evaluation. The model described here is that of the Output Monitoring Framework (OMF) developed by Scottish Enterprise, the national economic development body for Scotland. Its relevance lies in the fact that it was developed at the time to meet the needs of a federated-network of regional bodies known as Local Enterprise Companies (LECs) who had to work in close co-operation and partnership with Locate in Scotland (Scotland's one-stop shop for inward investors), Scottish Enterprise, and local authorities at the regional level.

The background is as follows: prior to the establishment of Scottish Enterprise in 1991, the primary responsibility for Scotland's economic development, including the attraction and retention of FDI, lay with the Scottish Development Agency and Locate in Scotland with its overseas network of offices and representatives in Europe, North America and Asia.

Unlike its predecessor, Scottish Enterprise was a federated structure with 13 regional bodies called Local Enterprise Companies (LECs) and Scottish Enterprise National which was the central body responsible for network co-ordination and the delivery of national programmes. Locate in Scotland continued to have the lead role in attracting and retaining FDI. Support services to new and existing overseas investors were delivered through the regional network of Scottish Enterprise.

Kaznex Invest has embarked upon a programme of increased regional support by introducing Investor Service Centres (ISCs) which are designed to work closely with Kazakhstan's regional local authorities, the Akimats (especially the SECs), to improve the local delivery of support to new and existing investors. Accordingly, in common with Scottish Enterprise, Kaznex Invest faces the challenge of how to develop common approaches on a cross-regional basis which will allow overall performance to be measured and improved on a continuous basis through shared learning and the dissemination of good practice.

The Output Monitoring Framework developed by Scottish Enterprise (1996) was an important contribution to the development of a common framework of monitoring and evaluation of network activity, including inward investor support, across a regionally federated structure. As such it could serve as a useful learning model for Kaznex Invest.

The following chapter provides a summary and overview of Scottish Enterprise's OMF and describes in full the elements of the framework relevant to the attraction and retention of FDI.

What is SE's Output Monitoring Framework (OMF)?

The OMF was developed to help regional bodies and Scottish Enterprise National adopt a consistent approach to the planning, measuring and reporting of their activities based on common activity, output and impact measures linked to the following seven national objectives:

- Business Competitiveness
- New Businesses
- Inward Investment
- Exports
- Skills and Knowledge
- Physical Business Infrastructure and Environment
- Access to Opportunity

The OMF is based on the following logic:

- Expenditure by the Scottish Enterprise Network attracts additional resources (inputs) from the public and private sectors (i.e. leverage).
- These “total” resources (inputs) support network activities (e.g. support for new and existing overseas investors)
- These activities produce economic and environmental outputs and outcomes (e.g. additional capital investment, additional production, additional sales and exports etc.)
- Eventually, these outputs and outcomes will impact on job creation and job safeguard, GVA and productivity.

This four-step chain of cause and effect provided the basic framework for the planning and reporting of the activities undertaken by the entire SE network. Based on this logic the OMF worked in a six-stage process:

- Step 1: Network actions were first allocated to commonly defined “activity categories”. The network expenditure, activity level, output and impact of each activity were set out under the relevant activity category.
- Step 2: Appropriate “activity measures” were selected. This involved defining and selecting the most relevant activity measure from a small number of “core” activity measures for each activity category. In addition, regional bodies were free to choose to define and use “other non-core” activity measures, if they felt these better reflected the scale and nature of their actions.
- Step 3: Appropriate “output measures” were selected. This involved defining and selecting the most appropriate output measures from a small number of “core” output measures for each activity

category. In addition, regional bodies were free to choose to define and use “other non-core” output measures if they felt these better reflected the consequences of their actions.

- Step 4: Progress against the prepared estimates for expenditure, activity levels, outputs and impacts was regularly reported and/or forecast.
- Step 5: Reported progress was aggregated for the network as a whole to provide estimates for total expenditure, activity levels, outputs and impacts.
- Step 6: A rolling-program of review and evaluation was undertaken at the project and program level. Review findings were disseminated on a network-wide basis to inform the next planning round and promote the adoption of good practice.

The OMF and Inward Investment

Inward investment was one of the seven national objectives adopted by the Scottish Enterprise Network. The following details the guidance offered to the network on how to apply the OMF in relation to this objective.

1. The Allocation of Activities to Action Categories

Network action required to be allocated to one or other of the primary activity categories under the strategic objective of inward investment. The relevant activity categories on which guidance was provided were:

- Assistance for inward investors: Here the guidance stated that this category should only include activities in pursuit of mobile investments from outside Scotland. Such investments must be associated with a) the establishment of new productive capacity or b) new investment to maintain or upgrade existing capacity. The latter should be included only when the investment was won against plants elsewhere (otherwise the investment should be treated as an investment in an existing business which was subject to separate guidance). The regional body must have contributed to the attraction of the investment before it could be claimed. Any assistance, such as training support, agreed at the time the investment decision was taken should be included. Projects delivered in partnership with Locate in Scotland should be flagged. Also support to a specific inward investor to ensure the investment happens in Scotland (e.g. investment support, business advisory support, company/product/technology development initiatives and training support specific to the investor) should be included.
- General (soft) infrastructural support for inward investment: This included general marketing initiatives, project costs of joint initiatives with other local partners (e.g. The Scottish New Towns, regional authorities and others) and overseas missions. Property and environmental projects were not included.

2. The Selection of Activity Measures

The network was required to select from a number of “core” activity measures. The guidance provided on these measures was as follows.

- **Number of enquiries handled:** This refers to the number of enquiries received from or on behalf of inward investors. This should include agents who may or may not be acting on behalf of specific clients. Misdirected enquiries or which do not come from the client group or client agent (e.g. from students/pupils carrying out projects) should be excluded. In general, the number of enquiries only refers to relevant enquiries which generate a response in terms of some specific information provision.
- **Number of investors directly assisted:** This refers to the number of investors who received a significant service. This meant that at least two of the following services had to be included:
 - A bespoke package of information, with some information unique to the enquiry and related directly to its specific requirements;
 - A presentation to the investor;
 - A specific proposal related to the requirements of the investor;
 - A tour of potential sites or accommodation.

In general, some of these dealings will be directly with the investor concerned and not with an agent.

- **Employment, sales or added value:** This refers to the total number of jobs created by the investor on a FTE (full-time equivalent) basis and the immediate figure for sales and value added.
- **Number of infrastructure projects:** This refers to the total number of infrastructure projects which are related directly to the objective of attracting inward investment. This may include site preparation, the construction or refurbishment of facilities/accommodation or the development of new site access arrangements.
- **Number of businesses benefitting from infrastructural projects:** This refers to the total number of businesses which benefit directly from infrastructural projects and refers specifically to those businesses which gain physical facilities as a direct result of action by regional bodies.
- **Numbers trained:** This refers to the total number of staff (owners and employees) participating in training courses or programs supported by a regional body. Where training support has not been offered as part of the initial investment package, but subsequent to the plant becoming operational, the numbers should be excluded.

It should be noted that in addition to the above “core measures”, Locate in Scotland and its regional partners also introduced a range of additional measures to help them measure “intermediate FDI performance” – such as the number of qualified leads, inward visits to Scotland etc

3. The Selection of Output Measures

The OMF guidance states that all planned expenditure by the network must have one or more quantified measures of output associated with it or should be “flagged” against one or more measures where quantification is not possible.

Outputs should be claimed at the highest annual figure over the mid-term (i.e. over a three year period). The network was also invited to indicate how output would be expected to develop over the longer-term.

In some cases outputs may only be one-off. Outputs may also be classified as new or safeguarded. An output maintaining a competitive position, for example, was regarded under the OMF as equally as valid as an output enhancing a competitive position.

The output measures for inward investment set out on the OMF guidelines were as follows.

- **Number of investment decisions:** This refers to the number of companies announcing firm decisions to invest either in new plant or in expanded plant in Scotland as a result of activity in year 1 of the planning period.
- **Investment by companies:** This refers to the value of capital investment associated with decisions in which LiS was involved. This should only include planned private investment in property and other physical assets.
- **Sales in inward investors:** This refers to the highest value of annual sales in the first three years after set-up.
- **Increase in business resource committed to training:** This refers to the highest value of annual investment in human resource development and training by locating inward investors. Regional bodies were required to “flag” the extent of activity in those categories where they worked jointly with Locate in Scotland. This should be expressed as a percentage of the jobs and investment associated with Locate in Scotland cases.

The OMF guidance also indicated that outcomes of second and third stage investments should be included under the above headings when these create a step change in the scale or capacity of the plant and when these investments have been won against competition from outside Scotland.

4. Impact Measures

Three main impact measures were used under the OMF to assess the contribution of the SE network to the Scottish economy (there were no impact measures developed specifically for inward investment). These were as follows:

- **Employment:** This refers to the number of full-time equivalent jobs created as a result of Network activity. The employment estimate should exclude very short-term jobs associated with the delivery of Network projects such as construction jobs, project officers, staff of a third-tier agency delivering Scottish Enterprise products and services on a contract basis. If significant, such jobs should be separately “flagged”. Jobs which are not permanent (i.e. expected to last less than 10 years) should also be flagged. Employment effects can be estimated directly or, if a job count is not possible, indirectly based on GDP effects, productivity effects and average GDP necessary to support one FTE job.
- **GDP:** This refers to the value added at the level of the Scottish economy. That is:
 - The sum of all incomes accruing to Scottish resident owners of factors of production such as land, labour or capital. Income from employment and self-employment is the main component.
 - Gross trading profits and surpluses.
 - Rents.

The OMF guidance indicated that due to the primacy of “wealth creation” GDP at the local level should be estimated as a work-based (rather than a resident based) measure of income or output.

- **GDP per employee:** This refers to average GDP per employee (including self-employed) in Scotland as the key benchmark measure for productivity.

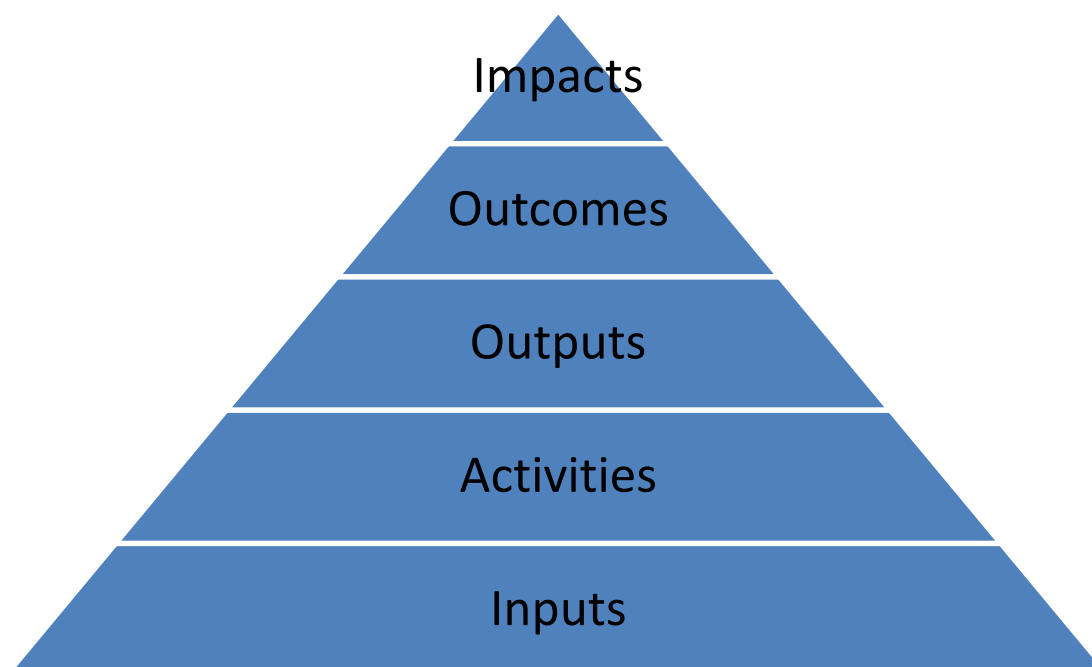
The OMF guidance stated that impact measures can be estimated gross or net after allowances for non-additionality, displacement, linkage and multiplier effects. Gross impacts should be reported by the Network as a whole before net impacts to ensure consistency in planning estimates for the Network as a whole. Where net impacts are reported the assumptions underpinning the measurement of any wider effects should be made explicit. Where these effects cannot be quantified, the Network should also “flag” where significant non-additionality, displacement and knock-on effects are anticipated in relation to specific activities.

Impacts may be measured at the level of the Network taken as a whole, or individual regional bodies. Scottish Enterprise National would be responsible for making any further adjustments to the level of the Scottish economy.

Key Lessons for Kaznex Invest

1. In the context of a federated-regional structure of support for new and existing inward investors, the OMF provided a common framework for a results-based management approach where planning, monitoring and evaluation were central to organizational/institutional learning and improvement
2. The OMF provided a common vocabulary which allowed different institutions and organizations to communicate and act together round clear and agreed definitions of activities, outputs and impacts.
3. The OMF provided the different bodies across this federated-regional structure with a consistent method and approach to data capture, measurement and reporting.
4. Analysis of performance through the OMF enabled a comprehensive review of the effectiveness of the full range of investor support (i.e. investment promotion/targeting, lead generation and securing investment decisions, investment start-up and investor aftercare etc.)
5. The results from the OMF enable network performance to be compared through time, organizationally (i.e. LEC by LEC), spatially (i.e. at the local and regional levels), on a sector and sub-sector basis, and by target geographies and for good practice to be identified and shared.
6. In the context of the above, the OMF provided the same “in principle” benefits to the overseas bodies charged with representative duties for the attraction and retention of inward investment including the overseas offices and representatives of Locate in Scotland and Scottish representatives in UK embassies and consulates.
7. The OMF was neither project-based nor supply-led but was a key component of a more fully integrated approach to the delivery of support to new and existing inward investors.

ANNEX 1 M&E KEY VARIABLES AND THE HIERARCHY OF CAUSE AND EFFECT



The horizontal scale of the triangle demonstrates the degree of control that policy makers have over the key variables of M&E:

- Control over inputs is complete, as policy makers can determine where to make investment. This correlates highly with the services and products that follow, i.e. the activities layer. The only difference at this stage is the possibility of co-sponsorship with other organizations or the private sector to fund activities.
- Thereafter the degree of control begins to diminish, as outputs may not happen because other factors - other uncontrolled market forces and events, for example, may become significant.
- Control diminishes further in the realization of outcomes, which have been dependent on the outputs.

ANNEX 2 – BASIC FUNCTIONS OF THE EXISTING KAZNEX INVEST SYSTEM

Creating a “Project” Record

Based on translation from Russian it appears that the core information of a typical “project record” is captured in 32 separate fields of information under five main headings. This record structure is detailed below:

- **Project background:**
 - Place of project implementation:
 - Region
 - Additional information (including the specification of the exact location of the project, if available)
 - Project objective and concept
 - Industry
 - Type of investment (project from scratch, based upon operating enterprise)
 - Project duration
 - Types of goods / services produced
- **Financial and economic indicators of a project:**
 - Project cost (USD million)
 - Required investments (USD million)
 - Projected production
 - Projected annual (service) production in money terms (thou KZT)
 - Trade market
 - Creation of jobs during building
 - Creation of jobs during operation
- **Project efficiency factors:**
 - Payback period, months
 - Discounted payback period, months

- NPV finance indicator
- IRR finance indicator
- Investor participation in the project
- **Project initiator:**
 - Type of project initiator
 - Enterprise
 - Year of foundation
 - Principal shareholders (sharers)
- **More information on the project, for example:**
 - Availability of raw materials (with a description)
 - Availability of material and technical base (with a description)
 - Access to foreign markets
 - Own participation in the project (US \$ million) and presence of own funds to be spent on the project
 - Willingness to share equity/cost of project (enterprise) in%
 - Investment assignment (new construction, enhancement, reconstruction, technical retooling)
 - Provision with raw materials and supplies
 - Available infrastructure

The completeness of the 267 project records held on the database and how regularly information is updated, by whom and on what basis has still to be determined. Similarly, access rights, protocols concerning company confidentiality and disclosure rules have also to be determined.

Creating an Investor Record

Based on translation from Russian it appears that the core information of a typical “investor record” is structured under 14 main headings. There are an additional 23 fields of information under 6 of these headings. This record structure is detailed below:

- **Company Name** (If the investor information is confidential, choose “available for me only” option).
- **Visibility of the investor** (i.e. willingness of the investor to disclose information)
- **Date of first contact**

- **Type of first-contact**
 - Forum
 - Road-show
 - Meeting
 - Phone conversation
 - Web-site query
 - Letter etc.
- **Remarks**
- **Country**
- **Industry** (i.e. main industry for record)
 - Add another industry
- **Company activity**
 - Operations
 - Mission
 - Products manufactured
 - Services provided
- **Forbes Global 2000 ranking** (if company is not included into the ranking put “-” sign)
- **Financial performance for the last fiscal year (USD)**
 - Revenue
 - Profit
 - Value of production
- **Investment expectations (USD)**
- **Registered office and company’s contacts:**
 - Address
 - Telephone,
 - Fax

- E-mail
- Website
- **Contact person** (include and name and position)
- **Production capacities in CIS countries, specify:**
 - Country
 - City
 - Name of organization
 - Types of output and products, etc.
- **Market presence in the Republic of Kazakhstan** (state form of the presence)

At present, it is uncertain how complete the 551 investor records held on the database are or how regularly information is updated, by whom and on what basis. Access rights, protocols concerning company confidentiality and disclosure rules also appear inadequate.

ANNEX 3 - FDI TRAITS WHICH CORRELATE WITH POSITIVE ADDITIONALITY

FDI projects which are mobile and contestable across borders and characterised by:

- High export intensity
- High volume/high value added
- High pay and productivity
- High local content in the products/services produced
- Low import intensity
- Low displacement/substitution in key local markets (final, intermediate and factor)
- Promotes host-country competition
- Augments and enriches local competence and capacity
- Forms strategic linkages locally which enhance place and firm competitiveness
- Capable of expansion and upgrade: i.e. can scale and move to higher value-adding functions
- Dynamic innovation: introducing new products and processes and opening up new host-country markets etc. at a faster rate
- Stimulates the rate of host-country investment and infrastructure/service upgrade

