PROFIT
promoting regional opportunities
for investment and trade

FDI checklist

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1. Introduction

Broadly speaking, there are three routes to investing internationally: set up a wholly owned subsidiary, invest in an existing business or set up a company in partnership with an existing business.

A wholly owned subsidiary offers the advantage of you being in total control but possibly the disadvantage of not being in any networks and, whilst it may be better resourced, is otherwise like a start-up. Investing in an existing business, depending on the proportion of equity that you buy, will mean that you will need to share the decision making. However, it will also mean that you instantly become part of the target company's networks and value chains. A joint venture has the advantage of utilizing the partner's networks and may benefit from seconded staff, but also requires joint decision making.

The first and most important question to answer is why you want to invest at all. Perhaps you see the country as an important market and think that you could sell more product if you had your business there importing your product and selling it in the target country. This costs more than working through distributors or agents but has the advantage that the business is totally focused on selling your product.

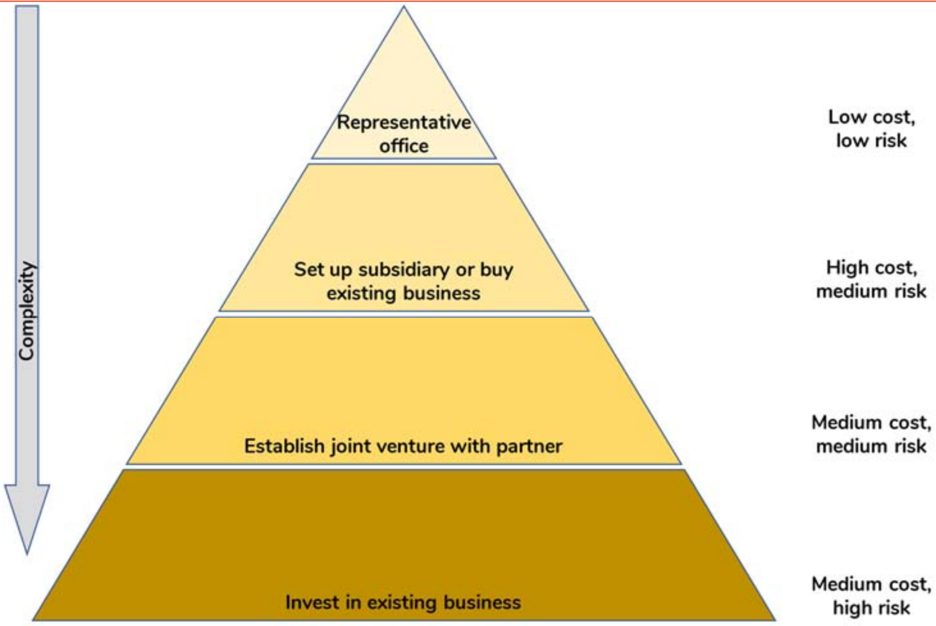
Perhaps you are already selling into the target market and are now ready to assemble or even to manufacture locally, either to meet greater demand, or to avoid import tariffs, or to access raw materials more easily.

Or perhaps you and a partner each have know-how that you want to combine to make a product that neither of you currently make or to adopt an innovative process that will allow you to manufacture more cheaply.

Maybe you offer a service already to customers in your home market and want to continue to support them as they expand internationally.

You should have already thought about the nature of your investment; if you have not yet done that, now would be a good time. Figure 1 shows, in a simplified format, general approaches to investment growing in complexity. The simplest approach is to establish a ‘representative office’ which is relatively low risk and relatively low cost. In this approach, you will employ someone locally, possibly an ex-patriate, who sells locally and then imports product from you or else arranges for you to deliver services from your home base. Other approaches are higher in risk and higher in cost though, to some extent, these can balance each other. Setting up a subsidiary or buying a business, for example, is high cost, but you are in complete control, so the risk is likely to be lower. Investing in an existing business lowers the cost, but increases the risk because now you have to worry about collaborative risk as well as market risk.

Figure 1: Approaches to FDI



Once you have decided that investment is the way to internationalise and the approach you would like to take, there are two further questions that need to be answered. The first is to decide whether there is a business case. The second question relates to the legal formalities that need to be observed.

Some countries restrict the sectors in which FDI is allowed, the amount that can be invested or require the involvement of a local partner. Some countries have exchange control restrictions making it hard to bring in currency and often harder to repatriate profits. And some countries require that companies seeking to invest internationally secure agreement from their government first. But countries often also offer tax incentives and other incentives to encourage investment. Depending on the nature of the investment, inward investors may be able to benefit from free trade agreements of the target country. Space does not allow for a detailed description of all the rules and regulations pertaining to FDI in Cambodia, India, Thailand and Vietnam. But there are many websites that can help and all the countries have inward promotion agencies who can give detailed guidance.

2. The business case

This may well be the hardest decision that you have to make. It is very easy to get carried away with your own enthusiasm either to invest in an existing business or to establish your own entity. But you need to treat the decision dispassionately. How much will you need to invest? Will the expected return on your investment meet your expectations? What are the risks? You can answer this question by thinking in the same way as a venture capitalist or a banker investing in a business.

If you are considering investing in an existing business, then ask for a copy of their business plan, interview them, consider how well you complement each other, and then undertake an appraisal (see PROFIT factsheet on *Investment Appraisal*). Whilst there may be a very specific reason for investing, remember that you are investing in the operations of the whole business, so you will need to reassure yourself that it makes sense.

If you are considering starting a new business, either on your own or as a joint venture, you will have similar questions to ask about the market and the likelihood of customers buying from you. Prepare a financial forecast. Think carefully and critically about all the assumptions. Do they make sense? Are you being too optimistic? How sensitive are the figures to fluctuation? If you need to raise additional finance, are they good enough to convince a financial institution? Even if you do not need to raise finance, asking yourself whether the figures are good enough to convince a financial institution is a good test. If you are setting up a joint venture, who carries the risk, or is it equally shared? What does your partner think about the figures? Are they being too optimistic? If the venture goes down, could they benefit – for example by taking over premises or equipment – meaning that you are effectively taking the bigger risk?

3. Business plan

It is important that you have a business plan since this will minimise the likelihood of you missing a key step. As you become more experienced, you can condense this into one or two pages of key targets and timescales to use as an aide memoire. But when you are just starting, it makes more sense to set out all the requirements in detail.

As with your domestic business, you will need to be clear about the customers and why they should buy. If you are buying a business, or investing in a business, or setting up a joint venture, you will need to be clear what each party is bringing to the partnership. This could include access to a customer base – but you will want to check that is true. Have you assessed the market? Do you have an indication of the total market for your product or service in the target country? Do you have an indication of how much you can sell? Does it matter? Or do you have one or two selected customers who wish to buy from you? Are you relying too heavily on a few customers? Are you aware of the standards that you will need to meet in the target country? It is quite likely that they will have different quality standards for the product and may well also have different packaging or different labelling requirements. You cannot just assume that what you do in your own country will satisfy either customer needs or legislative requirements in your target country.

If you are collaborating – because you are investing in a business (rather than buying it completely) or setting up a joint venture – then you need to set out the roles and responsibilities of each of the parties and what is to be done when something goes wrong. That is not to suggest that things will go wrong for you but it is sensible to set out the procedures beforehand, just in case.

You will also need to prepare a detailed financial forecast. See the PROFIT factsheet on *Financial forecasting*. This is primarily for you to assess the risks and rewards but you may also need to secure additional finance in which case the plan will also need to convince the reader that senior management is committed, that market research demonstrates that there is a market and the relevant quality standards and legal requirements can be easily met, that the logistics arrangements are all in place, that staff are aware of the project (and ideally frontline staff will have been through an appropriate training programme), that the price covers all the additional costs and that you have insurance arrangements in place in case you are not paid.

4. Risks

Generally there are three categories of risk: firm risk, market risk and business environment risk (see PROFIT factsheet on *Risks*). Collaboration adds to the firm risk because you now have the risk that your partner may not deliver as promised. You may, therefore, want to take time to assess the business before you enter into any kind of partnership agreement and also consider whether there is anything that you can do to mitigate the risk – such as having one or more of your own team working in the partner's premises at least for a period, such as appointing a director to the board, and such as aligning staff bonuses to reflect the behaviour that you seek.

5. The formal requirements

Once you have satisfied yourself on the business case, there will be a myriad of formal requirements that you need to navigate. Securing approval to invest in India, for example, requires that you provide as many as 20 documents, or sets of documents, to the relevant authorities, including:

- Certificate of Incorporation of both the investee & investor companies (though the investee company may not yet be incorporated)
- Memorandum and Articles of Association of the investee & investor
- Board resolution of each of the investee & investor
- Audited financial statement for the most recent financial year of the investee & investor
- Names and addresses of all foreign collaborators along with proof of identification
- Diagrammatic representation of the flow and funds from the investor to the investee and pre and post shareholders of the investee
- Affidavit stating that all information provided in hard copy and online are the same and correct
- Signed copy of the joint venture agreement/ shareholders' agreement/ technology transfer/ trademark/ brand assignment agreement (as applicable)
- Board resolution of any joint venture company
- Certificates of incorporation and charter documents of any joint venture/ company which is a party to the proposed transaction
- Valuation certificate as approved by a Chartered Accountant
- Certificate of statutory auditors as mandated in the FDI policy, as applicable

If you are thinking of investing internationally, you should seek guidance at an early stage on the required documentation from the inward investment promotion agency of the country in which you are considering investment.

6. FDI action plan & checklist

There is likely to be a lot to remember so it may be sensible to prepare an investment action plan – only a checklist of possible items is shown here – including target dates, person(s) responsible for making it happen, budget (if necessary) in an effort to ensure that you do not forget anything. You may find that a simple table is enough – or you may find it helpful to prepare a flow chart or a gantt chart. Whatever you choose, print it out and keep it on your desk as you progress through the internationalisation process.

Figure 2: Summary of planning requirements

Requirements	✓
1. Are you sure that foreign direct investment is the most appropriate entry strategy?	
2. Have you chosen a particular strategy? And assessed the risks and costs?	
3. Have you (and any partners) set short term and long term targets? And considered what to do if you do not meet the targets?	

4. Have you clarified the roles and responsibilities of each of the partners? And agreed how profits will be shared?
5. If you are offering a product based on something that you already sell in your domestic market, will there need to be adaptations to sell it in the target country?
6. Can you describe your customers? Can you name some customers?
7. Which businesses do you regard as competitors? What are the differences between your offer and their offer?
8. How will you market your product or service to potential customers?
9. Will there be logistical requirements? If so, how will they be met? Have you confirmed the costs?
10. Have you checked the paperwork that will be required? If you are setting up a company, have you checked the incorporation requirements? If you intend to employ nationals of your own country, have you checked the work permit and visa arrangements?
11. Have you determined the costs and set a suitable price? Is that price competitive in the marketplace that you are targeting?
12. Have you checked whether there are government incentives available towards the cost of your investment?
13. Have you considered the resources that will be necessary and do you have these available or expect to be able to raise them from a financial institution?

7. Further information

In the first instance you may want to contact the investment promotion agency of your target country for more information regarding inward investment:

- Invest Vietnam. See https://investvietnam.vn/
- Cambodia Investment Agency, see http://cia-investment.com/
- Board of Investment of Thailand. See https://www.boi.go.th/en/index/
- Invest India: Investment Promotion and Facilitation Agency. See https://www.investindia.gov.in/
- There is a good checklist of documents that investors in India need to submit to secure approval: https://taxguru.in/rbi/document-checklist-fdi-approval.html

website

contact@profit-accelerator.com

email

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