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# FOREIGN DIRECT INVESTOR PERCEPTIONS IN SUB-SAHARAN AFRICA

UNIDO Pilot Survey in  
Ethiopia, Nigeria, Uganda, United Republic of Tanzania



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## Foreword

This study was conducted as part of an activity launched by the investment and technology promotion programme of UNIDO to establish a focus group of African investment promotion agencies (IPAs) with close working linkages to UNIDO through ongoing Integrated Programmes. The objective of the focus group is to conduct research and design effective, low cost investment and technology promotion programmes that are in line with the financial, human and political resources available to most African IPAs. The group also links into the international network of UNIDO Investment and Technology Promotion Offices (ITPOs).

The survey was conceived as an input to the group's inaugural meeting, the UNIDO-Africa IPA Network, in Vienna on 20-23 November 2001. It was prepared under the overall guidance of Mrs Dan Liang, Director, Industrial Promotion and Technology Branch (IPT). UNIDO staff involved were Mithat Külür (coordination), Patrick Gilabert and Jürgen Reinhardt. Survey results are used for the formulation and conduct of future UNIDO programmes in investment promotion.

The survey would not have been possible without the full support of the respective IPAs in the four countries concerned, namely the Ethiopian Investment Authority (EIA), the Tanzanian Investment Center (TIC) and the Zanzibar Investment Promotion Agency (ZIPA), the Ugandan Investment Authority (UIA) and the Nigerian Investment Promotion Commission (NIPC).

The UNIDO Field Offices in Ethiopia, the United Republic of Tanzania, Nigeria and Uganda and the UNIDO Representatives Hassan Alli, Felix Ugbor, Kandeh Yumkella and Geoffrey Mariki played a central role in the local coordination and management of the survey. The data were collected with the support of national consultants.

Assisting UNIDO in the design and analysis of the survey were the main resource persons for the UNIDO-Africa IPA Network, P. J. Daly and James P. Bourke. Mr. Bourke is Director of Planning for the Irish Government agency for the coordination of investment promotion policies and is responsible for conducting regular surveys of investment promotion performance. Mr. Daly has served as an Executive Director and Board Member of IDA Ireland as well as in top management and overseas offices (Chief Executive Officer, North America, and Director, Europe).

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# Executive summary

## Introduction and survey background

The recent growth in Foreign Direct Investment (FDI) in many parts of the world did not bring any great benefit to the continent of Africa. In the boom year 2000, the investment volume of FDI actually declined and the share of world investment to the continent fell below 1% for the year.

Convinced of the benefits which would follow, African nations have been striving to increase FDI in recent years. They have accepted the general advice that they should improve their “product” — i.e. reform their economic structures and public administrations so as to bring them more into line with the market economies of the developed world.

Many have also accepted the advice that they should more actively “market” themselves to the international investment community. To do this, countries have created new institutions. Investment Promotion Agencies (IPAs) have been set up to provide a “One Stop Shop” to smooth the path and remove obstacles facing incoming FDI.

These changes, despite some success stories, by themselves, have not succeeded in dramatically changing the landscape for FDI for the continent of Africa. This has been recognized by development agencies who have recommended a more far-reaching approach to the investment promotion agenda through the introduction of strategies, which involve a more focused approach to the marketplace for FDI.

Such an approach, in turn, requires capacity building within African IPAs which require they achieve the “best practice” capabilities of investment promotion organizations, in, for example, Europe. Where the resource and financial base available is much superior to what prevails in Africa.

Such development, if it could be readily achieved, would undoubtedly enable African IPAs to adopt a more professional approach and probably achieve greater success in the marketplace for FDI. The reality facing such organizations however is that they are unable to adopt what is in effect a “high cost”, heavily financed and resourced, model for investment promotion. The challenge they face therefore is to develop a new “low cost model” within the capacity and skills of the staff African IPAs can attract.

To support this challenge is the ultimate objective of the present UNIDO Pilot Investor Survey conducted in four African countries — Ethiopia, Nigeria, Uganda and the United Republic of Tanzania.

These countries have already set up IPAs and have worked to create a suitable environment to attract FDI. They are, however, anxious to build on their achievements to date and develop their IPAs through the use of the most appropriate investment promotion policies and techniques. This combination of achievement and commitment to improving their approach for FDI promotion made each of the countries ideal subjects for the current pilot survey.

As a starting point for a new approach and to focus FDI promotion, IPAs need to become much better informed of their “product”: the competitive advantages their country can offer the FDI

community; the general operating conditions which contribute to this environment and the advice and assistance they themselves can add to the investment process. Developing a low cost model for investment promotion also requires that IPAs find ways of externalizing some of the costs of investment promotion, not just in terms of increasing donor contribution, but also by leveraging resources and exposure provided by International Development Organizations such as UNIDO.<sup>1</sup>

The present survey was launched in the context of a UNIDO initiative to bring together twelve countries in sub-Saharan Africa (with ongoing integrated programmes) under the umbrella of the UNIDO-Africa Investment Promotion Agency Network. This network established a forum, which will meet regularly, to explore low cost investment promotion strategies and techniques to mobilize both domestic and foreign investment.

The survey was conducted to provide information to the participating IPAs (represented at the most senior level) and develop an empirical basis for designing action programmes. The objectives included such considerations as improving knowledge on the motivation and orientation of existing foreign investors in the four countries surveyed; their general satisfaction level of the performance of their investment; planned investment by location and subsector and the barriers which could impede such future plans.

Given the role assigned to IPAs to facilitate foreign investment, the survey also sought detailed infor-

mation on their performance in this process and the relationship they have developed with the FDI community within each of the countries surveyed.

The survey was specially designed to assist the national IPAs to improve their effectiveness and to provide information that could also be of benefit to the other African countries in the network. Moreover, the information provided would directly assist the future work of UNIDO in supporting IPAs. It is anticipated that the survey will eventually be expanded into a periodic activity, covering all member countries, feeding both time series and cross-sectoral data. This will allow analyses at several different levels to assist IPAs at the country level to design appropriate strategies and select the best techniques for investment promotion.

If response on that level is positive, the survey could be developed in terms of its geographic coverage and the scope of the issues to be researched extended. There are many benefits of such an approach that are spelled out in detail in the conclusions to the survey. For example, valuable information on investor future plans in relation to existing investment could become the basis for constructing an Annual Index of Investor Intentions in Africa. Such information, which is routinely collected for the case of developed countries, is not available to governments, business, IPAs in Africa for their own countries or to the agencies responsible for providing development assistance.

The survey, over time, would also provide information at the level of IPAs on the strategies and techniques that succeed in an African context. It would also be possible to develop output indicators and ratings for individual IPAs that would enable ranking of their performance and thus influence the attitudes of their governments, their business communities and their client base. They would also provide information that would guide development assistance and donor programmes.

This survey therefore represents the beginning of a process. It is hoped that the outcome will enable African countries to improve their performance and redress their present inequitable and meager share of FDI.

Experience with the pilot survey underlined the importance of the IPAs ensuring that their investor

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<sup>1</sup> UNIDO is in a unique position to play a key role in developing a low-cost focused approach to investment promotion and assist the work of IPAs in its implementation. It has a long and sustained history of cooperation and engagement with IPAs in Africa.

- It has developed an organizational presence in many countries, especially in sub-Saharan Africa, through a network of Field Offices.
- It has an ongoing series of "Integrated Programmes" to assist economic and social development in many African countries and capacity building for IPAs and mobilizing investment for industry is an important component.
- On the international front, UNIDO also has a network of Investment and Technology Promotion Offices (ITPOs) located in eleven countries that provide investment and technology related services to developing countries in Africa and elsewhere.
- Finally, from UNIDO Head Office in Vienna, the organization can launch initiatives and initiate research, which brings new ideas and innovations to support the process of investment and technology promotion.



lists are fully up-to-date and have accurate contact details. The initial lists provided were found to contain some incomplete and out-of-date data and required additional work by the local UNIDO office, IPA and local consultants to ensure the representative samples were eventually obtained.

As well as an overall report covering all countries, four separate reports were generated, benchmarking each country individually against the overall average results. Target lists of companies requesting IPA follow up, with potential for additional investment over the next three years, were extracted and included with the reports for each country. Where insufficient responses were provided to particular questions the responses were excluded from the analysis.

The results were summarized for presentation at the UNIDO — Africa Investment Promotion Agency (IPA) Network Seminar on 22-23 November 2001 in Vienna.

### **The main findings and conclusions from the UNIDO Investor Survey**

The survey first focused on investors and addressed a number of issues which are likely to influence the future environment for FDI in each of the four countries surveyed. Total number of respondents was 430.

It found that from the investor perspective there was a strong orientation towards serving the domestic and to a lesser extent local regional markets. These markets were the primary motivators for investor behaviour. The Pan-African market was of only marginal importance. Other factors such as labour availability and cost factors were of secondary importance. The local incentive package available to investors ranked third in order of importance overall, although this varied between the countries surveyed. It appeared to be of most significance in Uganda and United Republic of Tanzania and of only marginal significance in the other two countries.

Investor performance in relation to expectations, an important indicator on future investment prospects, revealed a marginally positive picture overall, with a distinct difference between two groups of countries. Country analysis indicated that returns were significantly ahead of expectations in two countries —

Nigeria and Uganda. Investors in these countries claim to have enjoyed the best relative performance, and were therefore the most satisfied with their returns.

Responsibility for the negative influence was attributed to a number of external factors such as markets not living up to expectation, the negative impact of government regulation, excessive overheads and the costs of services.

In general terms the survey revealed that about 35% of investors responding found that returns were in line with expectations, while about 50% found that they were below. There was much greater variation between countries in relation to better than expected performance. This ranged between 8% and 15% depending on location.

Favourable market conditions were the primary factors responsible for positive returns according to the investors. This is not surprising when linked to investor motivation and orientation in the first place. Other positive influences were superior product quality in the marketplace and labour costs being less than expected.

Negative factors, which dragged down performance included, higher than expected overhead costs, material costs associated with the regulatory regime and the costs of services.

The survey tracked future investment plans by asking the investors their preferred location for future investment. Generally, they were highly satisfied with their existing location with 70% overall claiming it was their favoured location in Africa. This commitment level was highest in Ethiopia at 90%. There did not appear to be any great desire to investigate other locations for future investment with the possible exception of minor consideration being given to neighbouring locations in the cases of Nigeria and Uganda.

This is a finding of some importance. As will be shown in a later section of the report, existing investors play a critical role in encouraging new investors in making decisions on new investment locations.

The survey asked investors to indicate the future levels of investment planned over the next three years in their existing location. Across the four countries exist-

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ing investors planned to increase their investments by \$5.8 billion over the next three years. This is better than actual investment over the previous three years. Total FDI may be significantly better since these figures did not allow for possible contributions from new investors, which may or may not be of importance, since no attempt was made to ascertain their plans. It would have been an interesting extension to the work to try to forecast this based on projects that are at an advanced stage of planning in each of the countries surveyed. However, neither the time nor resources available allowed for this.

Two countries, Nigeria and Uganda, seem destined to continue to be the major investor destinations within the group over the next three years and accounting for most of the new investment planned. This is not surprising since they are the two countries where investor returns, relative to expectations, were the highest as already noted.

The total value estimated as a result of the survey of new investment from the existing investor base in the four countries amounted to \$5.6 billion over the next three years as already stated. This amounted to \$2.6 billion in Nigeria and Uganda, \$382 million in United Republic of Tanzania and \$173.5 million in Ethiopia. According to UNCTAD Investment Survey, the actual value FDI for these countries over the previous three years was \$5.2 billion from all FDI sources. The detailed distribution of this investment is contained in table 9 in the main body of the report.

A significant feature of the survey is that it is able to produce data on investor intentions on an individual firm basis. This is of importance from the point of view of national IPAs. As will be pointed out later, it enables them to focus promotion efforts on the identified leading firms and subsectors. This is a relatively inexpensive but a most effective way to focus promotion resources for maximum efficiency.

The second part of the survey focused on the role of IPAs in mobilizing and assisting FDI within their respective countries. The survey sought answers to a number of fundamental questions on this issue. Developing awareness of investment opportunities is a basic function of investment promotion. The data produced by the survey, of how awareness of investment opportunities were actually created, and the role

of IPAs in the process produced a significant result — the national IPA only played a minor role in directly creating awareness of investment opportunities. Across the board only 7% of investors indicated that the national IPA was responsible for creating awareness of investment opportunities. National embassies were responsible for less than 3%. The national institutions, which might be expected to at least generate awareness of investment opportunities, therefore played only a peripheral role in the process of creating awareness of opportunities for FDI. While there were some variations between the four countries they did not change this overall conclusion.

The survey found that the most significant source of investor awareness of opportunities for new foreign investment was transmitted by existing investors and business contacts. They were responsible for around 50% of investor awareness of opportunities. The conclusion is that the best way to encourage new investment, at least under present operating conditions, is through the existing investor and its related base. This implies that national IPAs need to develop close relationships between themselves and existing investors in order to increase investment for the future.

This is an important conclusion from the survey since it points directly towards the answer to the issue of developing a low cost model for investment promotion. Existing investors by definition are physically closer to national IPAs than those located abroad and are therefore easier and much less expensive to contact and influence. There is more than anecdotal evidence to suggest that much work remains to be done in developing closer relationships between IPAs and their FDI clients. In many developing countries the relationship between existing investors, as will be seen in a later section of this report, and the local IPA tends to be one dimensional and disorganized.

Investor missions and seminars were together significant as an important source of awareness of investment opportunities. They are also relatively low cost to operate.

The significance of promotional activities such as advertising, press reports and other public relations functions was unimportant in creating awareness of investment opportunities.

The range of services and the areas where assistance was provided to investors was examined by the Survey. Registration of investors would appear to be the most significant service provided by the IPAs in the countries surveyed. Nigeria was an exception where investor registration would not appear to be of importance.

Registration of FDI is intended to remove barriers facing investors and the survey sought to assess the reality of this in each of the four countries. The benefits of registration varied between the countries. Registration was most beneficial to investors in two of the four countries surveyed. In Ethiopia and United Republic of Tanzania, over 90% of investors claimed a positive benefit from the certification process. In Uganda, 75% claimed benefit. For those three countries the certification process appears to be working satisfactorily. The statistics for Nigeria were much less impressive and, as is pointed out in the survey, are probably in need of further research and analysis.

The process of certification itself has been subject to critical appraisal by businesses and international development agencies in many countries in the past, on the grounds of excessive official procedures and inefficiency. In an ideal world it would not be required. On the basis of the response to the survey, certification was rated as an efficient service by the vast majority of investors in all countries surveyed with the exception of Nigeria.

Investors normally seek the assistance of national IPAs on issues other than certification. The survey asked a wide range of questions on this and encouraged investors to indicate the services they themselves sought from their IPAs. As was expected the range of services sought were extensive.

The main services provided related to issues in the areas of taxation and fiscal advice, general advisory services, doing business in each country, industry sectors and the national economy. There were also a number of service areas of lesser importance such as importing/exporting advice information on customers and markets, suppliers and employment costs. IPAs were generally rated high on the quality of services in those areas.

However, agencies were not regarded as possessing good information on issues such as purchase/lease on buildings, bank interest reduction and excise taxation.

The expertise of executives within IPAs were assessed by investors. Overall, a high level of satisfaction was reported for each country surveyed.

In contrast to this positive response on individuals the performance of the IPAs as an organization was not so highly regarded. Around 30% of investors claimed that the national IPA did not perform to standard. Across the four countries the performance of individual executives were regarded as significantly better than the organization for which they worked.

The contradictory nature of this result was underlined by the fact that when asked if they would like to be contacted by the local IPA, the majority across the board answered that they would. Response to this question varied between countries with the highest rate of response coming from Ethiopia and the lowest from Nigeria.

The responses to the last series of questions in the survey suggest that there is great scope for improving the relationship between the national IPAs and their FDI client base. The most effective way to do this is for IPAs to use the good will that exists towards individual executives as the channel through which this may be established.

## Implications of the Survey

The implications that could be drawn from those conclusions were considered from three points of view; the national IPAs, the national governments, and international development agencies and donors. The details may be found in the main report. They are summarized here as follows:

**National IPAs:** The overall implication arising from the survey data for IPAs is the pointers that emerge for developing low cost, targeted activities that can have direct impact on FDI growth, bearing in mind that the pilot survey applied to only four countries and for one year only. This is a constraint which a survey expansion over time will address. Despite this limitation a number of valuable suggestions emerge from the data.

The first, relates to the imperative facing IPAs to cultivate the existing FDI base on the grounds that it can become an important source of future

investment and also influences new investors to locate in the country. This has been pointed out to IPAs frequently. However, it has been a rarely heeded advice. The survey provides empirical evidence to convince IPA boards and chief executives about the imperative to give more attention and resources to this area. IPAs should therefore develop well conceived strategies and structures to build and nurture excellent relationships with the existing FDI community and affiliate organizations such as chambers of commerce, banks and industry representatives. The investors surveyed strongly indicated a desire to develop close relationships with their existing IPA. This promotional channel also has the benefit that it is a low cost way of investment promotion and easily within the realm of local IPA capacities.

This is a low cost exercise especially when contrasted with attempting direct FDI promotion in foreign markets where the costs are high and the yields, at least in the short term, are low. All the indicators emerging from the survey point to the fact that IPAs would greatly improve their immediate effectiveness if they pursued this course of action. It is anticipated that a demonstrable impact in the short term could lead to more recognition of the IPA and eventually more resources for developing broader and more long term oriented programmes.

The data regarding the future investment intentions of existing foreign investors presents an ideal platform from which to start this exercise. The survey has produced a detailed list of future investment plans with almost \$6 billion of future investment indicated over the next three years. Providing whatever assistance they can within their authority would be an ideal way for IPAs to construct a mutually beneficial relationship with existing investors and unlock this potential.

This approach has further implications for the manner in which IPAs should be structured and managed in order to give priority to the existing investor base. Appropriate structures and relationship management programmes, which facilitate and encourage this process, need to be put in place. Not all of these can be quantified or identified at this stage since they will depend on the type of relationships that emerge once this process of dialogue develops.

The survey pointed to one other relatively low cost promotion channel that is not fully exploited by many national IPAs. This is the significance attributed to seminars and inward investment missions. These can be low cost operations that, on the basis of the survey data, produce significant results.

The survey did not indicate any great promotional benefit arising from the internet. This may be due to the fact that most African IPAs have not yet integrated the internet into their investment programme. However, this is a potentially low cost promotional tool that should be explored and studied further.

The influence of IPAs and the embassy networks in creating awareness for future FDI is far to low, as reported in the survey, and the reasons for this needs to be objectively examined.

The overall implication however is not that investment promotion in foreign markets should be abandoned. Instead IPAs should prioritize their promotion efforts on existing investors and use the product knowledge gained to attack the more difficult task of promotion. Finding ways of successfully doing this requires further research and consideration. Understanding the reasons for the marginal role of IPAs in generating awareness as shown by the survey is an example of what needs to be done. The present survey is the start of such a process.

**National Governments:** The survey pointed clearly to the fact that the domestic, as distinct from foreign markets, was the prime orientation of their existing FDI base. This carries a range of implications for domestic policy makers. If it is desired to use the existing foreign investors as a means of more efficiently serving domestic (as well as exploiting foreign markets), then the overriding policy objective must be to create a competitive base from which to do so.

Removing barriers to efficiency such as the high regulatory and other overhead costs should therefore become a priority. This would not only benefit existing investors, but also encourage new ones since, as demonstrated; the existing investor base is the most important channel to new ones.

The need to provide the necessary level of support to the IPAs should also be a major objective for

governments. The survey indicated that the services being provided by IPAs are important to investors. The most important was the Registration Certificate. This was not always recognized within the administrative system and a relatively high number of investors doubted its benefit. This is a common experience in many developing countries in Africa and elsewhere. The obvious implication is that national governments should ensure that the benefits promised under the registration process should be recognized in all parts of the administrative system.

Finally, the survey illustrated that the data collected in relation to future investor plans could be used to construct an Index of future investment flows into sub-Saharan Africa. This would be a forward-looking indicator (like the consumer confidence index, which is a closely watched leading economic indicator) and would also signal which subsectors will attract most of the future investments.

**Development Agencies:** The information provided by the survey over time could become a useful tool for planning the assistance programmes of development agencies such as UNIDO and the targeting of donor funds. Excellent information on past investment is obtained from the UNCTAD World Investment Report conducted on an annual basis. Information on future planned FDI is not reliably reported at the country level. The UNIDO survey could bridge this gap, at least for the countries covered by the UNIDO integrated programmes. As a result it would be possible to see where progress is being made and to develop a ranking of lead and laggard countries. This would provide performance measures which in turn indicate success or failure of assistance programmes and suggest where corrective action may be required at an early date.

The importance of FDI in economic development of nations is well recognized by all development agencies. Yet Africa is the least successful continent in

attracting the range of FDI that could assist its development. The UNIDO Survey could provide a tool that would enable the national IPAs to better monitor their performance and develop a new approach to their work. Moreover, it would enable them at this stage to provide a better focus for their investment promotion programmes that is frequently advocated but rarely achieved in practice.

**Future Development of the Survey:** The report concludes that this exercise provided valuable information on investor performance and future investment plans as well as insights into the relationship between IPAs and their FDI clients. This first Pilot Study received an excellent response from the firms surveyed and everything indicates that it can be equally well undertaken in other sub-Saharan countries.

It is suggested that the scope of the study should therefore be extended to cover 14 sub-Saharan countries and its scope broadened to better capture the economic impact of FDI activities.

There are a number of aspects to the performance of IPAs which could very usefully be studied. The reasons behind their low level involvement in much of the FDI in their country need to be resolved. Research on the level of resources in terms of staff and budgets available to the IPAs may provide an indicator on this issue. In any event there is a need to obtain more information on the resource base available for African IPAs and their promotions budget in order to get a better measure of the gap which exists between African and for example European investment promotion expenditure. When this is known it will be possible to indicate what resource level might be necessary to enable African IPAs to have a better chance of competing in the international marketplace for investment. Otherwise the continent may continue to maintain its position at 1% or less of the world market for FDI.

# Introduction

The flow of Foreign Direct Investment (FDI) reached an all time high of \$1.3 trillion during the year 2000. Investment Promotion Agencies in many parts of the world, especially in the highly developed economies of Europe and North America, but also booming Asian economies such as China, recorded record volumes of business and celebrated further success stories in attracting new investments to their countries. Most of this investment flow however was concentrated in the highly developed areas of the European Union the United States and Japan which together accounted for 71% of World inflows of FDI.

Developing countries, while also experiencing an increase in FDI to \$240 billion, actually saw a decline in their share of total investment for the second year in a row. It dropped to a 19% share from an all time high of 41% in 1994. In this rapidly expanding market for FDI the continent of Africa lost ground both in terms of volume and market share. Here the actual volume of FDI declined from \$10.5 billion in the previous year to \$9.1 billion. Consequently the African share of world investment fell from its previous 1% to a further low of a mere 0.67%.

The potential benefits that FDI brings to economic development are well known and eagerly sought by many countries both rich and poor. FDI brings quantifiable benefits in terms of employment, production, exports, linkages with domestic firms, new skills and technology transfer to those countries able to attract it in large volume. The poor performance of the African continent in attracting a better share of FDI means it has lost a potentially valuable contributor to its economic and social development.

While there is widespread agreement on the need for Africa as a whole and most African countries in particular to significantly improve their performance in attracting more FDI, there is little consensus as to how this may be achieved in practice.

In the past, African countries in common with those in other developing parts of the world have been advised by multi-lateral development agencies and donors alike that they should improve the quality of their "product". In practice, this required achieving macro-economic stability, liberalizing trade and generally removing barriers within their economic, political and administrative systems which created the disincentives to FDI.

Along with this, African countries were also encouraged and supported to set up Investment Promotion Agencies (IPAs) with the resources to "market" their attractions and create a One Stop Shop to smooth the pathway for incoming investors. These actions by themselves have proved insufficient to radically change the competitiveness of African Nations in the marketplace for FDI. This has been recognized by development agencies which suggest that developing countries need to further expand their approach to Investment Promotion by taking a more focused approach to the marketplace. This has been described as "Third Generation Promotion Policies" defined as follows:

The third generation of investment promotion policies proceeds to target foreign investors at the level of industries and firms to meet their specific location needs at the

activity and cluster level, in light of a country's development priorities. A critical element of such investment promotion is to improve — and market — particular national locations to potential investors in specific activities. However, such a targeted approach, especially the development of location "brand names", is difficult and takes time. It requires fairly sophisticated institutional capacities... [1]

Such institutional capacity building requires a different set of skills and competencies than cannot normally be found in the existing IPAs of Africa.

In effect, IPAs are being advised to make a radical change in their strategic approach to the marketplace for FDI and adopt "best practice" promotion techniques, which have succeeded for their better-resourced counterparts in the developed world, especially in Europe. To do this IPAs will need to deepen and improve their "product knowledge" of operating conditions for FDI in their own country. This involves obtaining a good understanding of the experiences of existing foreign investors on the ground, their satisfaction levels, their future investment plans and the competitive advantages they have found within the country. In addition, IPAs need to obtain a clear understanding of their own role in the investment promotion process and how they can better serve the needs of existing and incoming investors.

There has been little research at the firm level on the actual experiences of FDI investors or on the relationship between investors and local IPAs in African countries, which would provide answers to the issues raised above. As a result, there are wide gaps in knowledge of actual experience of investors on the ground and what exactly needs to be done to improve the investment climate for firms, on a country by country basis. This information is critical for national governments, international investment promotion agencies and IPAs in developing appropriate policies for encouraging FDI.

A perennial problem facing IPAs in African countries and their Governments alike is the lack of resources and skills available for FDI Promotion. Unlike their counterparts in developed countries in Europe, African IPAs do not have the resources to promote their countries in similar fashion to the investment community around the world. This places African

countries at an immediate disadvantage in the highly competitive marketplace for FDI. There is an urgent need, therefore, to find solutions to this issue which is within the resource base of African IPAs.

The high cost model developed in Europe, which is frequently used as a reference frame, is outside the capacity of many developing countries, especially most LDCs. This does not mean that many of the features of these "wealthy and developed" agencies are irrelevant. Many of the techniques developed are still required to promote and sell to prospective investors regardless of the level of economic development. The techniques and practices need however to be modified to cater for the realities confronting IPAs in Africa. It is therefore necessary to develop a low cost model that will provide for the existing realities of African IPAs.

UNIDO is in a position to play a key role in addressing and seeking solutions to the issues raised above. By virtue of its close cooperation with African IPAs and rooted presence in integrated programme countries, UNIDO has the ability to actually test and develop new strategies for Africa, which would be cost-effective activities specific to the African context and would expand the range of options open to their IPAs.

The present pilot survey of four African countries, Ethiopia, Nigeria, Uganda and the United Republic of Tanzania, represents one aspect of UNIDO's response.

It needs to be positioned and viewed in the much broader context of the Organization's programmes to assist economic and social development in sub-Saharan Africa. These include:

- Currently, the following countries in sub-Saharan Africa — Burkina Faso, Cameroon, Ethiopia, Ghana, Guinea, Madagascar, Mozambique, Nigeria, Senegal, Uganda, and the United Republic of Tanzania have ongoing Integrated Industrial Development Programmes that cover a wide range of development issues and include a major component relating to FDI and capacity building of local intermediary institutions.
- A new initiative was launched in November 2001 with specific focus on developing low cost investment promotion solutions for

IPAs in sub-Saharan African countries. Under this, the UNIDO-Africa Investment Promotion Agency Network, comprising the above countries and the UNIDO Investment and Technology Promotion Offices (ITPOs), was established. This provided a forum, which meets on an annual basis in Vienna, to explore appropriate low cost schemes to improve the effectiveness of its member agencies in mobilizing domestic and foreign investment.

- The present Pilot Survey in the four member countries of the Network — Ethiopia, Nigeria, Uganda and the United Republic of Tanzania — is a direct outcome of this initiative. It was undertaken prior to the inaugural meeting of the network to stimulate discussion among the participants as to the usefulness of how such a survey could assist them in designing and executing investment promotion programmes which would result in attracting higher levels of foreign direct investment to their countries.
- It was hoped that by providing better information on such pertinent issues as the motivation of foreign investors, their satisfaction levels with existing investment, their understanding of the specific barriers to investment expansion, commitment to their existing locations and future investment plans that the survey would assist in developing policies which would encourage future development of the FDI base in each country. Research on the role of local IPAs in facilitating FDI in each country surveyed was intended to get a better appreciation of how they were performing and contributing in the overall process.
- It was recognized that this pilot study would be developed, modified and extended to a wider range of countries in sub-Saharan Africa based on the feedback of the IPAs from the countries surveyed and participants from the other attendees at the conference. The ultimate ambition was to develop the survey on an annual basis to provide high quality information on the factors that currently facilitate and encourage

FDI flows to sub-Saharan countries. The Survey was also intended to provide precise information on the role of national IPAs in this process and to gain a better understanding of the strategies and the techniques which actually work within the context of sub-Saharan Africa.

## Survey objectives

To determine, in relation to existing foreign investors:

- Their investment experience, their perceived performance of existing investments, motivation for investment, market disposition (home market, regional market, other).
- The level of interest in future investment in the four African countries.
- Whether further investment are considered and in which subsectors.
- Indication of the amount of potential investment in the future.

To determine, in relation to investor experience with IPAs:

- Their experience of working with IPA(s) and if their services could be improved, suggestions for improvement or suggestions on services that could be eliminated.
- Their requirements for undertaking new investment.
- Facilitate benchmarking of the effort, which African IPAs expend on FDI promotion against each other and eventually other countries competing for foreign investment.
- Provide basic information to the IPAs on which mechanisms have positively influenced FDI decisions and which have not.
- Support development of comprehensive strategies and focused Investment Promotion Programmes to maximize the IPAs development results.

To determine, in relation to National Governments, International Development Agencies and Donors:

- How to use the information to provide guidelines for policy development to governments in relation to the promotion of FDI in their respective countries.



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- How to provide the basic data to enable a UNIDO Focus Group of IPAs from the countries to annually review activities and help formulate UNIDO strategy for investment promotion in the region.
- To eventually provide the basis for ranking of UNIDO IPA countries in terms of the different components of foreign investment perceptions.
- To provide the basis for a UNIDO publication series contributing empirical data and analysis to the public domain.
- To provide information to donors which would enable them to decide on the value they were receiving for their assistance programmes which were focused on the issue of increasing the flow of FDI.

The pilot survey was conducted in each of the four countries between September and October of 2001. The preliminary results and analysis were presented at the launch of the UNIDO Africa Investment Promotion Agency Network on the 20-23 November 2001 in Vienna.

# The survey methodology

## Data collection method and timetable

The survey was designed and organized to facilitate cost-effective collection of the information by local consultants chosen by the UNIDO Permanent Representatives in each country. The process was designed to be as straightforward as possible. Contact with the target companies was initially made through a letter of introduction and explanation from the UNIDO Permanent Representative in the country. Then the consultants followed up, making an appointment by telephone for a meeting to discuss and fill out the questionnaire. In a number of cases, due to geographic location or mutual convenience, face to face meetings were not possible and the questionnaire was explained and filled out by interview over the telephone.

The timetable required that the questionnaires would be returned and analysed to enable the preliminary results to be presented at the UNIDO — Africa Investment Promotion Agency (IPA) Network Seminar in Vienna.

## Selecting the sample

In undertaking all new surveys, it is strongly recommended that the first survey be considered part of the testing phase. While the aim is to gather the best possible data, it should also provide a solid basis for refining the final survey to improve it to ensure accuracy and cost effectiveness. To ensure initial cost effectiveness it was decided that the first survey would be treated as a pilot survey and be confined to the IPA clients in the selected countries. It was felt that subsequent surveys could be developed progressively, as resources permit.

It was decided that sampling desegregation by sector and firm size (either employment or sales based) should not be done for the first survey to keep sample sizes to manageable levels. Separate sectoral or size categories would have required a full sample for each to ensure that the coverage would be statistically sound enough to extrapolate the results to the full population. However, it was decided that the questionnaires would seek information for each company on their business sector, number of employees and current sales levels so that broad indications of the distribution of these could be obtained.

The benefit of this approach was to initially limit sample sizes and resources expended, while providing a good basis for deciding the focus of future surveys.

## Target population and target respondents

As stated above, the central objective of the survey was to elicit data on foreign investor experience in the host country and the potential for future investment. Thus the primary targets for the pilot survey were existing IPA clients in the manufacturing sector.

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It is important to ensure that the highest quality data possible is returned. This means that the information for the questionnaires had to be obtained from the most senior managers possible in each company. The pilot survey was very successful in this respect. 91% of respondents were senior line managers (such as Plant Manager, Marketing Manager or Financial Controller) or higher. Table 1 below sets out the distribution of the positions of respondents for the pilot survey.

**Table 1. Distribution of position of respondents — pilot survey**

	<i>Percentage</i>
Chairperson, Managing Director or Owner	25
Director	15
Senior Manager including Financial Controllers	51
Sub Total — Senior Management	91
Assistant or analyst	3
Consultant	2
Not given	4

### Sample size

A common misperception is that the sample size should be increased in proportion to the size of population. This in fact is not true for most surveys. The sample size formula for a survey of a large population does not contain a population size factor. It is defined by the equation:

$$\text{Respondents required } N_o = 1 / \text{acceptable error}^2 \quad (\text{formula 1})$$

In the case of smaller populations an additional factor can be used to further reduce the sample size. So for an acceptable error of plus or minus 10%, the number of respondents required =  $1/0.1^2 = 100$ . Similarly, for an acceptable error of +/- 5% or +/- 3% the number of respondents required is 400 and just over 1100 respectively. This latter figure is why most opinion polls and national surveys aim for about 1000 respondents.

Following consultations it was decided to aim for an accuracy of +/- 8%. For a larger population the above formula would have required 156 returned questionnaires for each country. However, as the foreign investor population in each of the pilot countries was less than a thousand, the sample required was further reduced using the following formula:

$$\text{Corrected sample Number } N_c = N_o / (1 + N_o / P),$$

where  $N_o$  is the sample determined by formula 1 above and P is the population of foreign investors, as per the country IPA (*formula 2*).

Table 2 below sets out the desired sample size, the actual number of companies surveyed and the resulting accuracy obtained as per formulae 1 and 2.

The pilot survey underlined the importance of the IPAs ensuring that their investor list is fully up-to-date and has accurate contact details. The initial lists provided were found to contain some incomplete and out-of-date data and required additional work by the local UNIDO office, IPA and local consultants to ensure a representative sample was eventually obtained. Despite these initial "teething" difficulties, the final accuracy levels achieved are quite good for a pilot survey.

**Table 2. Survey sample and accuracy/margin of error resulting**

	<i>Ethiopia</i>	<i>UR of Tanzania</i>	<i>Nigeria</i>	<i>Uganda</i>	<i>Overall</i>
Desired sample	69	127	103	101	400
Actual sample	59	83	133	157	432
Accuracy obtained*	+/- 9.45%	+/- 10.3%	+/- 6.5%	+/- 5.3%	+/- 4%

Source: EIA, TIC, NIPC, UIA.

\* At the 95% Confidence Level.

## Procedure for selecting companies for the sample

The country IPA provided an alphabetized client list of foreign investors to UNIDO for selection of the sample list. UNIDO in turn issued the final list to the selected consultants.

A 50% non-response rate was assumed and so twice as many companies as the required sample were identified to ensure that a sample as close as possible to the desired sample was obtained.

UNIDO selected the sample from the alphabetized client list provided by the IPA by drawing the appropriate number at random to obtain the sample.

The requirements for selecting the local consultants included experience in conducting surveys in the country in question and an ability to advise on the likely response rates and thus to advise UNIDO on selecting the target companies to ensure a good sample was obtained.

## Questions and layout of the questionnaire

### Question selection

The questions were selected to ensure that the objectives set for the pilot survey would be fully achieved.

The full schedule of questions is given at the end as an annex.

### Covering letter

An important factor in ensuring a good response rate is ability to convince the target group that they will eventually benefit from this exercise and the neutrality of the body/person issuing it to ensure respondents will be satisfied that their confidentiality will be protected. The covering letters for the pilot survey were issued personally by each of the UNIDO Representatives in the four countries and the whole exercise was personally supervised by the respective URs. The letters explained the survey and

emphasized the importance of the information to enable UNIDO and the country IPA ensure that policies and programmes were developed to be fully in line with the requirements for the successful development of their businesses. The letters also assured confidentiality, except where permission to divulge information was explicitly given.

### Layout of questionnaire

The questionnaire was designed to be as straightforward and short as possible to ensure good response rates, with most of the information to be gleaned by simply checking boxes to indicate a position on a Likert<sup>2</sup> scale. For example:

What level of new (i.e. in addition to depreciation replacement) investment could you consider making over the next three years in Country Name? (In US dollars).

<1m	1m to 10m	10m to 100m	100m to 1bn	1bn+
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

In addition to the general use of Likert scales in the questionnaire, some questions were framed to allow multiple responses to a range of categories and some were framed to allow free text answers of up to 100 characters.

The multiple response format was used where a number of responses might apply, for example, question 14 in the schedule: "Why did you invest in country name? (tick appropriate boxes)". Here the respondent can select several reasons from a larger range of possible reasons.

The free text format was used in two situations:

Firstly, where it was not possible to pre-define categories for the use of check boxes, for example, questions such as: What are the top three improvements you suggest the country IPA make to their services? — Questions 21, 22, 27 and 28. The answers received to these questions during the pilot survey were grouped into categories to create the basis for check box responses in future surveys.

<sup>2</sup> A Likert Scale usually involves assigning between four and ten categories to a numeric scale for indicating one appropriate response.

Secondly, where contact information was required.

The use of this structure also facilitated subsequent data entry, checking and analysis.

### Data collection and questionnaire checking

The local consultants appointed by the UNIDO Representatives were responsible for follow up and ensuring the target samples and deadlines were achieved for returned questionnaires and that they were legibly and properly completed. The UNIDO Representatives supervised the integrity of this stage of the process. Properly completed questionnaires were returned to a central location by secure courier for data entry.

### Coding, data entry and checking data entry

The data on the questionnaires were collated by country, coded where required and entered into a database set up in SPSS®.<sup>3</sup>

The schedules of data entered were checked for missing entries and any other inconsistencies and then cross-checked against the original questionnaires.

### Analysis procedure

Analysis was carried out using the statistical analysis package SPSS®. The reports were prepared in the form of SPSS analysis, converted to PowerPoint slide presentations supported by Excel® spreadsheets where the data was not amenable to summarizing onto PowerPoint® slides.

Due to a lack of up-to-date baseline census of industrial production information, the survey could not be

related to a data set that provided overall basic data on the target population, such as employment or sales levels by sector. In the future, if such baseline data becomes available, it should be possible to “gross up” the results of sample surveys and estimate absolute results, as is done by the IPAs in more developed countries. The questionnaires for the pilot survey were thus designed to provide data on a proportionate basis.

This required that the results of the analysis from the pilot survey also be formulated in proportionate terms. For example: “nearly 20% of the foreign investors in Uganda would like to increase their investment by 50% or more in the next three years.”

As well as an overall report covering all countries, four separate reports were provided, benchmarking each country individually against the overall average results. Target lists of companies, requesting IPA follow up, with potential for additional investment over the next three years, were extracted and included with the reports for each country. The free text comments on the answers to questions 21, 22, 27 and 28 were included with the reports for each country, where permission was given to release the information.

Where insufficient responses were provided to particular questions, the responses were excluded from the analysis. This happened with Nigeria for questions 16 and 17 seeking information on the efficiency and usefulness of the NIPC certification process. These questions related to question 15: “Has your company been registered by the NIPC?” Only 12% of Nigerian respondents answered “yes” to this question. Thus there were only a small number of respondents where a view could be expressed on the efficiency and usefulness of the certification process.

The results were summarized in Microsoft PowerPoint for presentation at the UNIDO — Africa Investment Promotion Agency (IPA) Network Seminar in Vienna and this was updated with the final data for subsequent individual country presentations. The complete set of presentations is available on the UNIDO web site <http://www.unido.org>.

<sup>3</sup> SPSS (Statistical Analysis Package) is a registered trademark of SPSS Inc for its proprietary computer software.

## Analysis of pilot survey respondents

This section illustrates the findings of the pilot survey in terms of the respondents:

- Main business sector
- Company size by employment
- Company size by sales level
- Size of existing investment
- Expected sales growth over the next three years
- Access to e-mail

In general, the response to the survey was very constructive and positive. Nearly 70% of respondents indicated a preference to re-invest in their existing location and 62% expressed a wish to be contacted by the IPA to discuss future investment. Companies were very keen to provide information to help improve IPA services and the investment environment. 70% of respondents gave permission for the information in the returned questionnaires to be released to the relevant IPA.

### Sectoral coverage

Table 3 below provides information on the sectoral distribution of respondents.

	<i>Percentage of returns</i>
• Food and Drink	18.6
• Agriculture	8.3
• Rubber and Plastic Products	9.3
• Chemicals and Chemical Products	8.3
• Textiles	7.6
• Fabricated Metal Products	5.0
• Consultancy	4.8
• Construction	4.3

**Table 3. Sectoral distribution of respondent companies by country (percentage)**

<i>Country Name</i>	<i>Ethiopia</i>	<i>UR of Tanzania</i>	<i>Uganda</i>	<i>Nigeria</i>	<i>Total</i>
Agriculture	18.6	6.3	10.3	2.4	8.3
Mining	1.7		1.9		1.0
Food and Drink	18.6	28.8	18.1	12.7	18.6
Tobacco		1.3	1.9		1.0
Textiles	3.4	10.0	2.6	14.3	7.6

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Table 3. (continued)

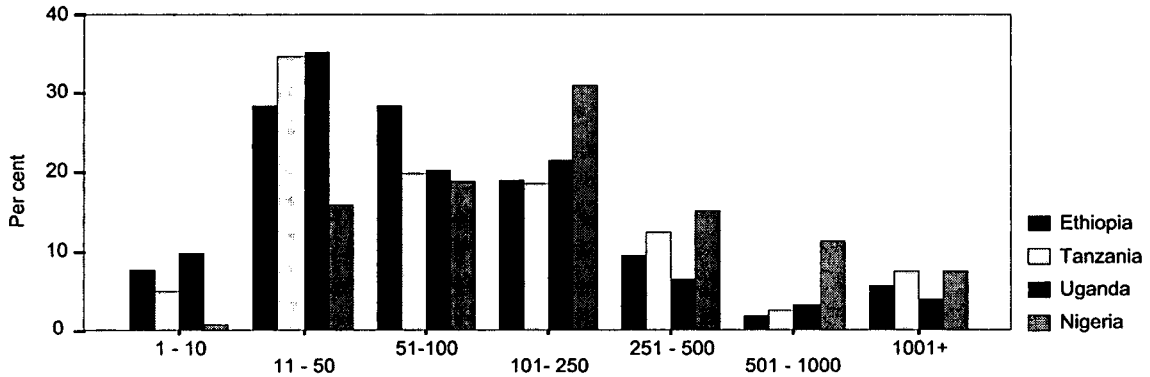
Country Name	Ethiopia	UR of Tanzania	Uganda	Nigeria	Total
Clothing and Fur	1.7	1.3	0.6		0.7
Leather Products and Footwear			1.3	2.4	1.2
Wood and Cork excl. Furniture	1.7		1.9	0.8	1.2
Pulp, Paper and Paper Products	1.7	2.5	3.2	1.6	2.4
Publishing, Printing and Recording		1.3	1.3	4.8	2.1
Coke and Refined Petroleum Products	1.7	1.3		0.8	0.7
Chemicals and Chemical Products	11.9	8.8	5.8	9.5	8.3
Rubber and Plastics	10.2	11.3	5.8	11.9	9.3
Stone, Clay and Glass Products	1.7		1.9	3.2	1.9
Basic Metals	1.7	1.3	0.6	6.3	2.6
Fabricated Metal Products	5.1	5.0	5.2	4.8	5.0
Machinery	3.4		1.3		1.0
Office and Accounting Equipment		1.3	1.3		0.7
Electrical Machinery		2.5		2.4	1.2
Radio, TV and Communications		1.3	1.3		0.7
Medical and Precision Equipment				0.8	0.2
Motor Vehicles and Equipment		3.8	0.6	2.4	1.7
Other Transport Equipment		1.3		0.8	0.5
Furniture		2.5	1.3	1.6	1.4
Electricity and Gas Supply			0.6	1.6	0.7
Water Supply		1.3			0.2
Construction	6.8	1.3	5.2	4.0	4.3
Wholesale			0.6		0.2
Motor Vehicle Repair			0.6		0.2
Hotels and Restaurants			6.5		2.4
Transport			0.6	2.4	1.0
Post and Telecommunications		2.5	0.6	2.4	1.4
Financial Intermediation			3.9	1.6	1.9
Consultancy	3.4	1.3	10.3	0.8	4.8
Other Business	5.1	2.5	1.3	3.2	2.6
Software and Related Consultancy	1.7		1.3	0.8	1.0
	100.0	100	100	100	100

## Company size by employment

Figure 1 below shows the distribution of companies in each country by number of employees. Most Ugandan and United Republic of Tanzanian based companies

fell in the range 11 to 50 employees. Nigeria had the highest proportion of larger companies by employment, with 65% having an employment level above 100.

Figure I. Company employment size distribution

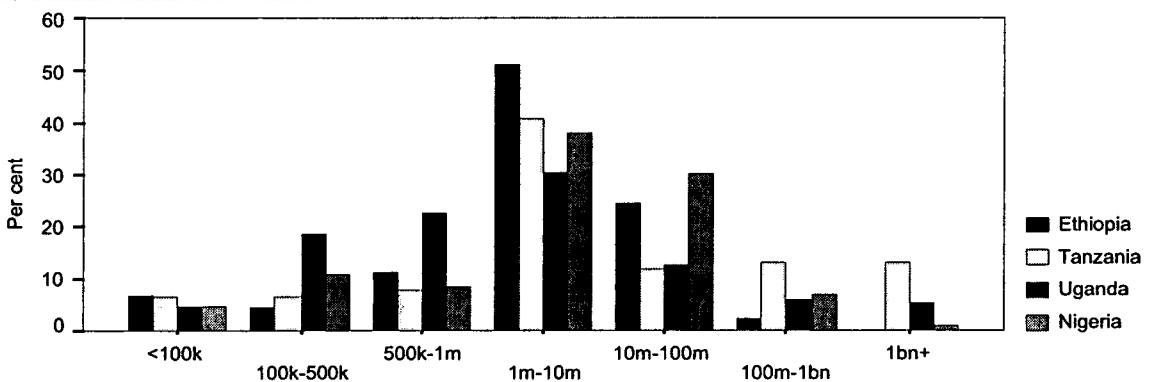


### Company size by sales level

Figure II below provides the distribution of companies in each country by sales level category. Overall, 31% of companies had sales of less than \$1m. Most companies (57%) had sales in the range \$1m to \$100m, with 12% having sales of over \$100m. 75% of Ethiopian companies fell in the range \$1m to \$100m, with 68% of Nigerian companies, just over half of

Ugandan and 43% of United Republic of Tanzanian based companies falling within this range. United Republic of Tanzania had the highest proportion of larger companies by sales, with 26% having a sales level above \$100m. Ethiopia had the smallest proportion with only 2.2% having a sales level over \$100m.

Figure II. Company annual sales distribution (US dollars)



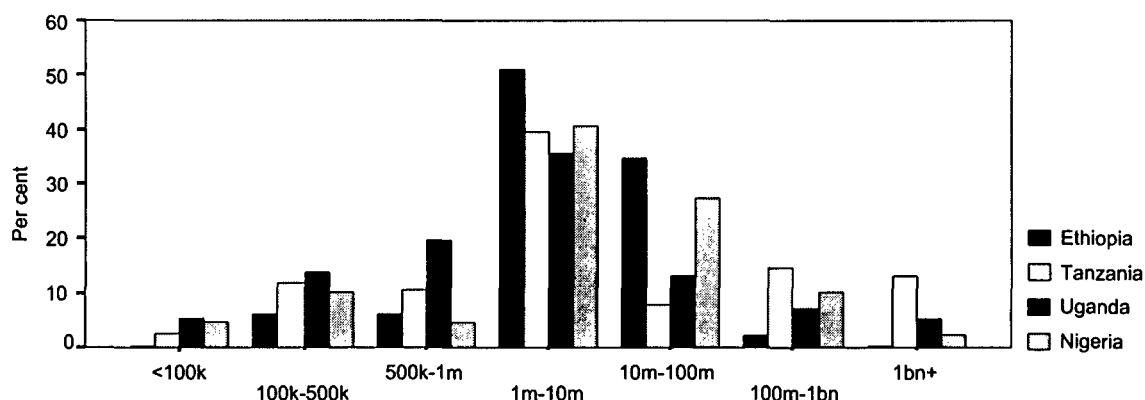
### Size of existing investment

Figure III below provides information on the distribution of companies in each country by the size of the existing investment level. Nearly 60% of overall respondents had a current investment level that fell in the range \$1m to \$100m, with 40% in the range \$1m to \$10m and 20% in the range \$10m to \$100m. Overall, 26% of respondents had investment that was under

\$1m in value and 14% over \$100m. Interestingly Ethiopia had the lowest proportion of smaller companies, with 12% having under \$1m investment. Uganda had the highest proportion of smaller firms with 39% of companies having under \$1m investment. In Nigeria and United Republic of Tanzania 25% and 20% respectively of companies had investment of under \$1m.



Figure III. Distribution of value of existing Investment (US dollars)

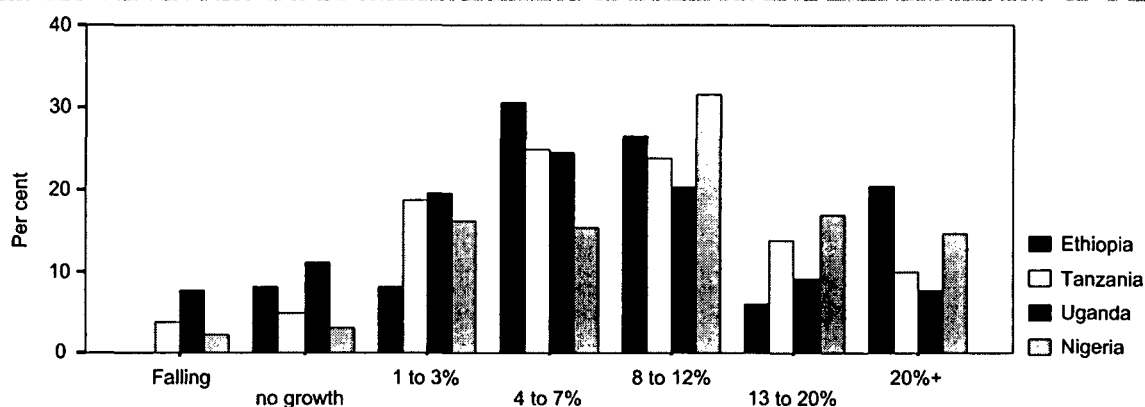


### Expected sales growth

Overall, nearly 50% of companies in the pilot survey expected annual sales growth of 8% per annum and above over the next three years. With 12% expecting annual growth of 20%+. Nigerian companies were

expecting the highest growth rates with 63% expecting average annual growth rates of 8% or above. The distribution of expected sales growth is illustrated in Figure IV below.

Figure IV. Sales growth expected p.a. over next 3 years (percentage)



### Access to e-mail

Over 61% of the companies surveyed had an e-mail address. Figures for the countries were:

- Uganda 51%
- Nigeria 55%
- Ethiopia 73%
- UR of Tanzania 86%

This was very important for future surveys where substantial cost savings could be achieved.

The next chapter examines the findings of the pilot survey in detail, with a particular focus on the performance of investments, the IPAs and the requirements for successfully attracting FDI into sub-Saharan African countries.

## Analysis of pilot survey results

### Investor motivation

Investors were asked in each of the four countries studied to indicate the reasons for their investment decision. The results are presented under table 4.

**Table 4. Reasons given for investment in each country (percentage)**

<i>Country Name</i>	<i>Ethiopia</i>	<i>UR of Tanzania</i>	<i>Uganda</i>	<i>Nigeria</i>	<i>Overall</i>
Local market	25.3	25.4	19.4	27.3	23.9
Regional market	6.8	12.2	11.1	9.7	10.4
Continental market	7.5	3.4	3.5	3.3	4.0
Labour costs	13.0	3.4	4.5	9.4	7.0
Material costs	4.8	7.8	8.0	6.1	7.0
Public services	2.7	2.4	3.8	3.6	3.4
Quality	2.7	4.9	4.0	3.0	3.8
Labour availability	15.1	10.2	11.6	17.0	13.5
Infrastructure quality	2.1	5.4	4.5	3.9	4.2
Services costs	3.4	1.5	2.6	3.3	2.7
Incentive package	6.2	15.1	17.3	4.5	11.7
Other e.g. Saw Opportunity; Near Mid East Market; Climate or Economic Conditions	10.3	8.3	9.7	8.8	8.4
<b>Total number</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The single strongest reason for investment in each of the countries surveyed was to serve local market demand. A total of 23.9% gave this as their primary reason for investment. This figure was remarkably consistent for Nigeria (27.3%) United Republic of Tanzania (25.4%) and Ethiopia (25.3%). In Uganda the figure was somewhat less at 19.4%

The ability to access Regional markets was also a significant factor in investor decision making with 10.4% claiming this as a factor. Again the figure was consistent for three out of the four countries; United Republic of Tanzania (12.2%) Uganda (11.1%) and Nigeria (9.7%). In Ethiopia, however, (6.8%) the figure was less than the average for the other three.

These two market related reasons combined accounted for 34% of investment decisions across the four countries. By contrast the ability to serve the African continental market at 4% was much less significant in three out of the four cases.

Labour availability was also a significant factor for investor motivation. It accounted for 13.5% of the rationale and ranked as the single most important non-market reason for investment decisions across the four countries. This was especially so in Nigeria (17%) and Ethiopia (15.1%) but less so in Uganda (11.6%) and United Republic of Tanzania (10.2%).

When labour availability and cost are combined with other factors such as material costs they accounted for 27.5% of investment decisions on a combined basis. Their significance was most pronounced in two countries - Ethiopia (32.9%) and Nigeria (32.5%) — whereas in United Republic of Tanzania they accounted for 21.7% and Uganda 21.1% of investor motivation.

The availability of an incentive package was the third most important reason cited at 11.7%. This was most pronounced in two out of the four countries. Uganda (17.3%) and United Republic of Tanzania (15.1%) and much less significant in either Ethiopia (6.2%) or Nigeria (4.5%).

## Investor performance in relation to expectations

### General performance

Performance in relation to expectations is a critical variable for investors for two broad reasons. In the first instance it directly influences future investment plans and the overall satisfaction rating with the investors decision-making process in the first place. In developed countries a high proportion of investment in any one year from the FDI sector is due to expansion of the existing investor base and can account for over 50% of the total volume of investment. A virtuous cycle is thus created where success breeds more success. It is therefore relatively easy for countries with a successful FDI programme to steadily increase the stock of investment each year.

In developing and particularly in African countries where the stock of investment is low, such a development is much less likely and this makes it all the more difficult for them to increase the existing stock of FDI. The small size of the investment base however makes it more manageable and all the more important to assist its growth through understanding the satisfaction level of existing investors, to learn of their plans, and appreciate the factors which are impeding their development.

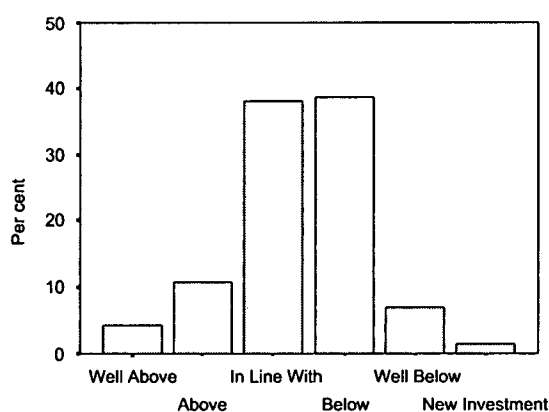
There is a second important reason why the issue of investor performance in relation to expectations is important. Existing investors serve as a reference

point for those planning new investments. There is much anecdotal evidence of the importance of this and it will be fully verified in later sections of the report.

The survey therefore included a number of questions on this and some related issues.

The following figure V provides across the board information to the question on investment performance in relation to expectations.

**Figure V. Has the existing investment performed to expectations? — All**



The information here indicated the overall experience has been more rather than less positive by a small margin. In all, 53% of investors feel that their performance has either been in line with or above expectations.

Despite this positive information, a significant proportion have had negative experience, with 39% reporting below expectations and 7% well below.

In general terms it can be said that 15% of investors obtained above expected returns, 38% were in line with expectations while 46% were below.

The issue arises if these returns are sufficiently high to encourage companies to increase their investment levels in the future and to try to better understand the reasons why performance fell short of expectations. The survey did in fact address these issues and the overall results will be presented in sections below. Before that, however, it is interesting to compare investor experience by country.

## Performance by country

Table 5. Has your investment performed to expectations in the last three years? (Percentage)

Country Name	Ethiopia	UR of Tanzania	Uganda	Nigeria
Well above	4.0	2.6	3.2	6.3
Above	4.0	7.7	13.5	11.8
<b>Sub total</b>	<b>8.0</b>	<b>10.3</b>	<b>16.8</b>	<b>18.1</b>
<b>In line with</b>	<b>36.0</b>	<b>34.6</b>	<b>42.6</b>	<b>35.4</b>
Below	36.0	48.7	36.1	37.0
Well below	8.0	6.4	4.5	9.4
<b>Sub total</b>	<b>44.0</b>	<b>55.1</b>	<b>40.6</b>	<b>46.5</b>
New investment	12.0			
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100</b>

On the basis of this data, Nigeria ranked as the best performing country of the four in relation to investor expectations. 18% of investors reported performance above expectations.

Performance was found to be in line with expectations for approximately one out of three investors across the range of companies, with Uganda reporting somewhat better results.

Between 40-55% of respondents reported under-performance of their investment, Uganda, was at the lower end of this group and United Republic of Tanzania at the highest.

As will be discussed in chapter 4 when the issue of planned future investment is explored, there would appear to be a high correlation between investor satisfaction and future investment volumes.

### Reasons for investment performance in relation to expectations

Investors were asked to state the reasons why investment performance deviated from the expectations they had when they made the investment in the first place. Their response is summarized in table 6.

Table 6. Performance of investment relative to expectations by factor and overall (percentage distribution)

	Well above	Above	In line with	Below	Well below	% of companies responding for each factor
Market Conditions	3.7	11.4	39.4	38.2	7.3	56.9
Distribution Conditions	6.5	17.4	41.3	32.6	2.2	10.6
Quality	13.1	32.8	44.3	8.2	1.6	14.1
Regulatory	2.8	2.8	28.0	56.1	9.3	24.5
Other market	2.0	4.1	24.5	63.3	6.1	11.3
Costs of labour	10.2	17.3	42.9	26.5	3.1	22.7
Costs of materials	1.8	10.7	45.5	36.6	5.4	25.9
Costs of services	2.2	14.3	28.6	42.9	11.0	20.8
Other costs (overheads)	4.2	1.2	25.5	58.8	10.3	38.2
Column average	5.2	12.5	35.6	40.4	6.3	

## FOREIGN DIRECT INVESTOR PERCEPTIONS IN SUB-SAHARAN AFRICA

Table 6 analyses investment performance and the underlying factors responsible as identified by respondents. This table shows that in general market conditions were identified as the most important explanatory factor identified by 57% of respondents. This was followed by other cost (overheads) (38%), cost of materials (26%), the regulatory regime (25%), cost of labour (23%) and cost of services (21%).

Overall, 53% of the performance of the factors was in line with or above expectations. However, companies found these factors did not reach expectations in 47% of the cases. This ranged from 38% of respondents in Nigeria to 57.3% in Ethiopia.

The quality of product in the market place relative to competitors was highly significant as a factor in explaining better than expected performance by investors. Fewer than 46% of respondents who identified this factor indicated performance above expectations. This suggests that investors brought better quality products to the marketplace relative to existing suppliers and were able to serve their new markets more effectively than they expected.

Labour costs being better than expected were cited as the second most important contributor to better than expected returns. This was listed by 27% of respondents to this factor.

Other contributing factors were better than expected with market conditions (15%) and material costs (12%) being more favourable than expected.

Each of the above positive factors contributed to a better than expected investment performance. Not surprisingly, the picture was not all positive and a number of sometimes-familiar negative factors contributed at times very significantly to dragging investment performance well below expectations.

### Future investment plans

With the above information on investor motivation and performance as a background, the survey sought

to gain insight into companies future investment plans and investors commitment to their existing locations. This type of information is lacking for the most part in African and most developing countries around the world. As a result, governments and IPAs are placed at an obvious disadvantage in relation to planning for the future or forecasting likely developments within their economies.

The objective was to use the information collected in the survey to provide an estimate of the volume of investment planned by the population of investors over the next three years. This would assist national IPAs to develop a more focused approach to their investment promotion programmes for the future. It is also proposed to use this information to establish an Investor Index for each country for the future. This, in addition to providing invaluable information the National Governments and their IPAs, would also provide agencies such as UNIDO with information that could be used as the basis for planning assistance programmes. To ascertain this information investors were asked questions on their commitment level to their existing locations and to provide information on future investment plans. This information was then used to provide a quantification of the likely volume of investment to each location over the next three years.

### Commitment to present locations by investors

The information provided on the level of commitment of investors to their existing location is presented under table 7 below.

Despite the negative aspects within the comparative environment of the four countries, surveyed investors remained optimistic. Generally investors were satisfied that they had made the right investment decision in relation to their existing investments and were willing to make further increases within the next three years.

**Table 7. Preferred location for future investment (percentage distribution)**

<i>Future Investment in:</i>	<i>Ethiopia</i>	<i>UR of Tanzania</i>	<i>Uganda</i>	<i>Nigeria</i>	<i>Overall</i>
Existing Country	88.6	71.6	62.1	70.6	69.6
Sub-Saharan Africa	6.8	6.0	21.4	13.4	14.4
Africa Generally	4.5	22.4	16.6	16.0	16.0

Table 7 sets out the proportion of respondents indicating whether they would invest again in their own country, elsewhere in sub-Sahara or elsewhere in Africa generally. Most respondents would prefer to re-invest in their existing country. Moreover, the majority of investors were willing to recommend further investment in their existing country.

In the case of Ethiopia the commitment level was extraordinarily high. Nearly 90% of investors would re-invest there. In Nigeria and United Republic of Tanzania over 70% of investors stated a similar intention.

Where investment elsewhere was indicated, no dominant location emerged overall. However in two countries, investors did indicate a preference for location in neighbouring locations. In the case of East Africa. In Uganda, 11% of investors expressed a preference for neighbouring United Republic of Tanzania. At the other side of the continent

In West Africa there was a strong indication from investors in Nigeria to consider neighbouring Ghana where 18% expressed a preference for that location.

In general terms the survey found a high degree of satisfaction with existing locations and an appetite for expanding investment in existing locations. It would also appear that the returns being obtained, as reported under figure VI and table 8 were sufficient to encourage such further investment.

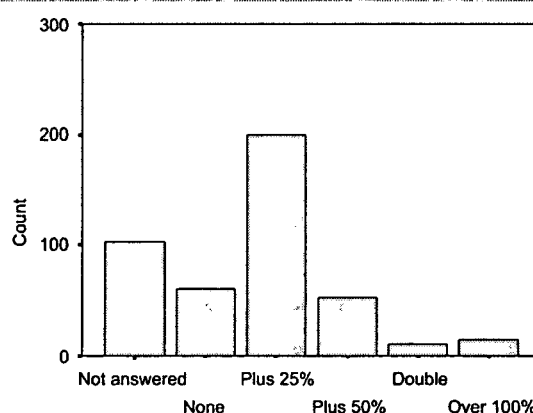
### Quantification of future investment plans

The survey sought information on future investment plans from the respondents. There was two parts to the question on investment potential. In the first part companies were asked: "What level of new (i.e. in addition to depreciation replacement) investment could you consider making over the next three years

in per cent terms?" There were 274 responses to this part of the question.

The results are summarized in figure VI below.

**Figure VI. Investment increase could consider next 3 years — All**



This indicates that of the 432 companies responding in the pilot survey, 274 (63%) said that they could consider increasing investment by 25% or more over the next three years, with 78 of these (18%) indicating the possibility of increasing their investment by 50% plus.

In the second part, companies were asked: "What amount of new (i.e. in addition to depreciation replacement) investment could you consider making over the next three years in dollar terms?" The response was given by indicating a box on a Likert scale with the following headings:

<1m, 1m to 10m, 10m to 100m, 100m to 1bn, 1bn+.

There were 249 responses to this part of the question and the results are presented under table 8 below.

**Table 8. Amount of additional investment that could be considered over the next 3 years by category, country and number of respondents**

	<i>Ethiopia</i>	<i>UR of Tanzania</i>	<i>Uganda</i>	<i>Nigeria</i>	<i>Total</i>	<i>Per cent</i>
<\$1m	1	10	48	20	79	31.7
\$1m-10m	23	17	39	39	118	47.4
\$10m-100m	5	6	6	18	35	14.1
\$100m-1bn	1	3	5	4	13	5.2
\$1bn+			2	2	4	1.6
<b>Total</b>	<b>30</b>	<b>36</b>	<b>100</b>	<b>83</b>	<b>249</b>	<b>100.0</b>

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This indicates that 32% of investors would plan investment of less than \$1m over the next three years.

The largest category, representing 47% of investors, plan to invest in the range of \$1-10m.

The top 21% of investors plan increases in excess of \$10m.

To obtain a picture of what these figures translate to in terms of total amount of investment planned, the following approach was adopted.

The total value of investment potential was calculated by multiplying the minimum<sup>4</sup> word of the category, i.e. \$1m in the case of the category \$1m to \$10m, by the number of respondents in that category and summing the result. Table 9 shows the result.

**Table 9. Estimated total amount of additional investment that could be considered over the next 3 years by country (millions of US dollars)**

	<i>Ethiopia</i>	<i>UR of Tanzania</i>	<i>Uganda</i>	<i>Nigeria</i>	<i>Total</i>	<i>Per cent</i>
<1m	0.5	5	24	10	39.5	31.7
1m-10m	23	17	39	39	118.0	47.4
10m-100m	50	60	60	180	350.0	14.1
100m-1bn	100	300	500	400	1,300.0	5.2
1bn+			2,000	2,000	4,000.0	1.6
<b>Total</b>	<b>173.5</b>	<b>382</b>	<b>2,623</b>	<b>2,629</b>	<b>5,807.5</b>	<b>100.0</b>

In summary, companies responding to the survey indicated a minimum of \$5.8bn in additional investment potential over the next three years. For each country, the investment planned was as follows: Nigeria and Uganda — just over \$2.6bn each, United Republic of Tanzania \$380m and Ethiopia \$170m.

For comparative purposes this figure may be contrasted with total FDI flows to the combined group of countries for the previous three years. This information was reported in *Annual Investment Survey Reports* (1998-2000) conducted by UNCTAD [2]. According to these surveys a total of \$5.2 billion of FDI was recorded for this period for the four countries. The present UNIDO Survey indicates that this will increase to \$5.8 billion on the basis of the firms surveyed, i.e. an increase of 11.3% growth over the three-year period. This contrasts with a decline of 10% of FDI over the previous three years.

The data indicated that two countries — Nigeria and Uganda — accounted for over 96% of all planned new investment. This may overstate the reality however, since it does not take into account investment from new sources in any of the four countries. While this is higher than experience over the past three years it is not far out of line with previous experience. Over those three years total FDI investment in both countries accounted for \$4.2 billion out of the

\$5.2 billion recorded for the four, i.e. 82%, of FDI recorded for the four countries combined.

The survey data was also analysed at individual firm level. Firms with investment potential were identified from the returns. On the basis of this a list has been provided to the IPA in each country, setting out the lead investor firms and subsectors with their growth potential over the next three years.

This can be a valuable tool in the hands of IPAs since it provides the basis for an investment promotion programme that is highly focused on the existing FDI base. The implications of this will be discussed in a later section of the report. This will be explored in greater detail in a later section of the report.

While the present UNIDO Survey — which is forward-looking — of investors and their future investment projections cannot be compared directly to the historic information collected by UNCTAD, the two do in fact complement each other. The UNCTAD Survey provides a useful benchmark for the future extrapolation of investment trends as indicated by the present UNIDO Survey. In fact, they can mutually reinforce each other. The data presented above, in relation to past and projected investment gives a

<sup>4</sup> Except in the case of <\$1m where \$0.5m was used.

degree of confidence in relation to the projected future volumes of investment, as indicated by UNIDO. In general terms it would appear that the data does not point to any dramatic increase of FDI investment for the four countries surveyed from the existing investor base over the next three years.

Increasing the stock of Foreign Direct Investment will in all probability be heavily dependent on the flow of new investment during the next three years.

## Conclusions of UNIDO investor survey FDI performance and perceptions

The conclusions in relation to investor performance and perception arising from the data collected in the survey may be categorized as follows.

### Investor motivation

There is a strong domestic market orientation of the FDI in each of the countries surveyed. This was the case regardless of size of the market being served. The importance of the domestic orientation of FDI in each of the countries represents a significant finding for the survey. The significance is in keeping with the findings which were presented under table 4. Investors surveyed indicated that market conditions were the single most important explanatory factor responsible for investment performance and they accounted for 45% of under-performing investment.

Not surprisingly the availability of labour and associated costs of labour were also considered to be of importance to investors. This was more pronounced for two of the countries surveyed. In Nigeria and Ethiopia they ranked higher than in United Republic of Tanzania and Uganda.

The evidence on the importance of the incentive package available within the four countries is somewhat mixed and inconclusive. Overall it would appear not to be a major factor in investor motivation. This finding is in keeping with the theoretical and empirical literature on the subject where incentives as a determinant of FDI are considered to be of no great significance. They are somewhat similarly regarded by development organizations, such as the

World Bank, FIAS and OECD, where they tend to be regarded as distortions within the marketplace. However, the survey indicates that incentives did rank relatively high in Uganda and United Republic of Tanzania whereas they would appear to be of only marginal significance in Nigeria and Ethiopia. This may be due to the nature of the incentive packages available and their accessibility in either group of countries or there may be other explanations. At this point there is insufficient evidence to say why these differences exist and deeper analysis in future surveys may be justified.

### Investor performance in relation to expectations

The survey was able to identify certain factors that contributed to successful performance of the investments such as product quality, labour costs and, in some cases, better market conditions than anticipated. However, the overall results, while encouraging, do not constitute an overwhelming endorsement of investment performance and success.

The most significant combination of factors which contributed to the negative competitive environment and poor return to investment included the existing regulatory environment, excessive overhead costs and costs of services.

Investors in many African countries frequently cite such regulatory and overhead factors as the major negative for existing and future investment. On the basis of this survey, 54% of investors claimed that these combined factors accounted for their negative experiences in terms of the gap between expectations and what they actually experienced.

This is of importance because there is a close relationship between the efficiency of Government regulation and the resulting cost structure of industry. Inefficiency and excessive regulation may be expected to directly impact on the overhead costs borne by investors and this is confirmed by the present survey.

This information will not come as any great surprise to either investors or the national governments. Taken together these three factors — existing regulatory environment, excessive overhead costs (in many cases due to weak physical infrastructure)



and costs of services — were the main non-market reason for poor investment performance. They can each be traced to the familiar issue of bureaucratic and other inefficiencies. The survey provides further information on this issue and points to the need for national governments to urgently address the issue of inefficiencies within their respective administrations.

### Performance by country

Data on performance by country was presented under table 5. This indicated that there were, in fact, some significant differences in investment performance in relation to expectations between the four countries.

The strongest performance in the group came from Nigeria and Uganda where a sizable percentage of investors reported returns above expectations. Despite this, investors in Nigeria reported the second highest incidence of performance below expectation.

In general terms the survey data indicated that one out of three investors reported their investment performed in line with expectations. Around one out of two fell below. Depending on country, between one in six or one in twelve found better than expected performance.

On the basis of the above, it is not possible to indicate whether such levels of satisfaction will lead to increases in investment or otherwise since there are no benchmark figures available. The survey, however, did focus on this important issue by seeking information on future investment plans.

### Future investment plans

On the basis of the survey and using the methodology in this chapter (see “Qualification of future Investment plans”, and presented under table 9, it was possible to provide estimates of future investment intentions by the entire FDI sector for each country. In total it was estimated that on the basis of the information provided by the firms surveyed in all four countries investments of \$5.8 billion are planned over the next three years. This was divided between the four countries on the following

basis Nigeria and Uganda \$2.6 billion each, Ethiopia \$170 million and United Republic of Tanzania \$380 million.

The overall picture revealed that the majority of firms surveyed intended to increase their investments over the next three years. Of the 432 investors surveyed, 274 (63%) said that they could consider increasing investment by plus 25% over the next three years, with 78 (18%) indicating the possibility of increasing investment by plus 50%. 32 firms planned to more than double investment. This is a positive development from the point of view of the national governments in each of the four countries surveyed.

It is interesting to note that on the basis of the data revealed by the survey, there does appear to be a close relationship between future investor plans to expand and the returns obtained from the previous investment. Nigeria and Uganda, the two countries that showed investors were obtaining better than expected returns from their investment (see table 9) also showed that investors planned to increase and further concentrate investment in those two locations.

The FDI flows projected over the next three years appear to be more or less in line with historical experience showing strong concentration, as already indicated, on Nigeria and Uganda among the four countries surveyed.

The Pilot Survey sample of four countries is clearly small and results such as this may not be fully representative. Further extension of the sample may be necessary before the results are subject to a high degree of certainty. Despite this, the above conclusion may be regarded as a strong indicator to national government and IPAs that the best clients for future investment are probably those who are best satisfied with their existing investments.

On the assumption that the survey will be repeated on an annual basis, this data provides information to the national administrations and IPAs on the likely trend of FDI growth in their respective countries. Moreover, it would enable them to benchmark their performance against other countries in their region. It will also enable governments to benchmark their own performance over an extended time period. This kind of information, which is regularly available to

governments in developed countries from various surveys, has not been available to those in the developing world. As a result, they lack basic information critical in policy formulation and development.

On the basis of the information provided by investors in this survey, national governments and their IPAs would be provided with information as to future investment plans by specific FDI firms. This information would enable the IPAs to focus on the firms and subsectors most likely to yield new investment during the coming three years and provide whatever assistance is required to enable them to realize their plans.

From a government prospective, the aggregate data also enables each country to build an index of investment that could provide an indicator to the national governments of likely future investment flows. Such an index would directly complement the valuable information currently provided through other sources.

### **Commitment to present locations by investors**

The survey was able to indicate the commitment of investors to their present location. This provided another indication on their satisfaction level in relation to their existing investment and future plans.

Investors registered a high level of satisfaction in their current locations and a strong willingness to expand within their existing country boundaries. As has already been indicated in relation to figure VI, 63% of investors have plans to increase investment over the next three years. The highest level of commitment was in Ethiopia where almost 90% of those surveyed indicated it was their preferred location, with very high levels of commitment from the other three countries also. This is a highly significant finding since it indicated that regardless of any negative feelings about their present investment or the investment climate, investors were planning to stay in their existing locations. The information gained in the survey does not indicate that the FDI in the four countries surveyed is "footloose" and easily willing to change locations.

This was complemented by the information provided in relation to the question as to where investors would recommend further investment. The response was overwhelmingly in favour of their existing country with 70% responding positively across the board.

Few were ready to relocate. There were some possible exceptions in Uganda and Nigeria, which showed the highest propensity to relocate in neighbouring countries. This, despite high levels of investment planned for each location. It is interesting to note that, in each case, investors are already located within two free trade areas and adjacent to each other. Thus they could plan to serve both markets from the same base in the absence of tariff or other barriers to trade. This sort of behaviour is associated with firms in, for example, the European Community and North America where firms frequently rationalize and concentrate production in what they perceive to be the most efficient location within the broad marketplace. While there was no concrete evidence from the survey that this type of behaviour was generally taking place in the context of African markets nonetheless the greater integration of African markets will probably lead to such rationalization in the future.

Such footloose behaviour is frequently found within classic multinational corporations where comparative advantages are frequently reassessed and location decisions subject to constant review. It may well be that this type of corporation is not significantly represented within the sample surveyed. Instead owner entrepreneurs who have found a niche market within the national economy may dominate the FDI in the four countries surveyed. This kind of investment is more likely to remain in place even when times are bad unless forced out by factors such as radical political change or other shifts in the economic landscape. The character of the investor base may therefore deserve closer study in future surveys.

Such issues, which arise as economic integration progresses, will therefore present new challenges and opportunities for African investment promotion agencies and their governments in the future. This survey could be structured in future to provide answers to these and other questions.

## Summary

In general terms therefore it can be said that the present UNIDO Pilot Survey was able to provide detailed and valuable information within the four countries surveyed, on issues such as:

- The orientation of FDI
- FDI performance
- FDI investor satisfaction levels
- FDI commitment to existing locations
- FDI future investment plans over the next three years

The survey also provided answers to questions that gave detailed information on the factors effecting the competitive situation facing FDI such as the prevailing regulatory environment and critical cost factors such as costs of services and other overheads.

The detailed implications arising from all this however will be outlined in chapter 5 of the report. Before that, it will be necessary to review the information the survey provided on the role the national IPAs actually played in assisting the development of the existing FDI base.

## The role of IPAs in developing FDI

In broad terms, countries attempt to promote themselves within the marketplace for FDI by using the following techniques:

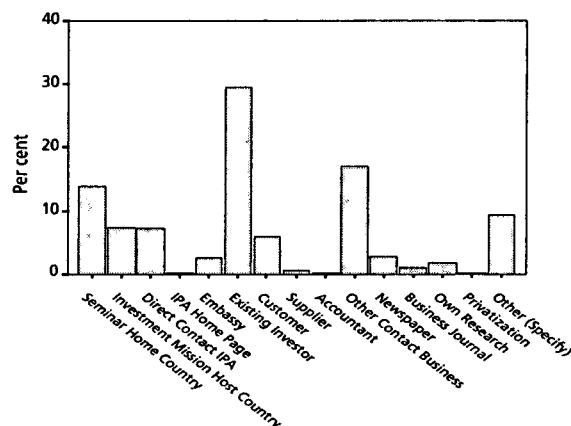
- Image Building Activities
- Generating Investments
- Providing Services to Investors

Image building consists of a wide range of separate functions designed to create awareness of investment opportunities in the minds of investors. In order to identify the most effective of these the survey asked the investors how they became aware of the investment opportunity in the first place.

### Developing awareness of investment opportunities

Developing awareness of investment opportunities is of fundamental importance for IPAs. Such awareness creation can also be extremely costly and many associated activities such as advertising in the international Financial Press and directly reaching foreign investors in their home territories are outside the capabilities of IPAs in many developing countries. An important objective of the survey, therefore, was to see if it was possible to identify the mechanisms through which investors first became aware of the investment opportunity in the first instance and from this to ascertain the most effective and if possible the least costly mechanisms which have proved effective in the past. The survey asked investors the question: "How did you become aware of the existence of the investment opportunity?" Answers are presented in figure VII and table 10, which analyses the data for each country.

**Figure VII. How was your company made aware of investment opportunity?**



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Table 10. Analysis of how companies were made aware of investment opportunity by country (percentage)

	<i>Ethiopia</i>	<i>UR of Tanzania</i>	<i>Uganda</i>	<i>Nigeria</i>	<i>Total</i>
Seminar home country	9.09	23.46	14.84	5.43	12.86
Investment mission host country	10.91	7.41	7.74	9.30	8.57
Direct contact IPA	9.09	11.11	7.74	2.33	6.90
IPA home page			1.94		0.71
Embassy	5.45	4.94	0.65	2.33	2.62
<b>IPA / Embassy / Investor Missions</b>					
<b>Sub Total</b>	<b>34.55</b>	<b>46.91</b>	<b>32.90</b>	<b>19.38</b>	<b>31.67</b>
<b>Existing investor</b>	<b>12.73</b>	<b>22.22</b>	<b>32.26</b>	<b>36.43</b>	<b>29.05</b>
Customer	5.45	2.47	3.87	10.08	5.71
Supplier	1.82		1.29	0.78	0.95
Accountant	1.82				0.24
<b>Other contact business</b>	<b>20.00</b>	<b>13.58</b>	<b>17.42</b>	<b>18.60</b>	<b>17.38</b>
Newspaper	1.82	4.94	1.29	3.88	2.86
Bus journal	1.82	1.23	0.65	0.78	0.95
Own research	10.91	1.23			1.67
Privatization	1.82				0.24
Other	7.27	7.41	10.32	10.08	9.29
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

From this data the most important influencing factor in arriving at investment decisions was the experience and recommendation of existing investors, other business connections and suppliers. Almost 50% cited these as the most significant influencing mechanisms for their investment. This is an extremely important result which should directly influence the way IPAs conduct their work. It brings to the forefront the need for IPAs to work closely with the existing investor base. It also further underlines the need to ensure that the competitive environment is supportive to the needs of existing investors. As has already been indicated in a previous section of the survey this is not the case and certain administrative aspects impose unnecessary costs on the existing investor base. Inevitably it has to constrain the positive message which existing investors give to those seeking new investment opportunities.

The benefits of maintaining close links between the FDI community and national investment promotion agencies is also demonstrated clearly in European countries. A review of the main IPAs results for 2000 showed that between 35-65% of investment in the most recent year was from existing investors. This further underlines the finding of the UNIDO study that existing clients are probably the most cost effective

and efficient paths to new investors. African IPAs therefore should be encouraged to develop close relationships with the existing FDI base in order to expand it through increasing the commitment of existing investors and using them as a platform to inform new investors. This requires that IPAs implement and give priority to active customer relationship management programmes ahead of spending scarce resources on, for example, investment promotion in foreign markets.

Investor missions and seminars are also significant in creating initial awareness of investment opportunities. Together they accounted for 20% of awareness. Seminars in host countries however was almost twice as important in creating awareness as distinct from inward investor missions.

A somewhat surprising finding was the result that the national IPAs were directly responsible for only 9% of awareness creation while the national embassy network was responsible for less than 3%. The role of the IPA as a direct generator of investor interest would appear not to be of great significance on the basis of this data. Even if combined with the influence of countries' embassy network, they did not amount to much more than 10% of awareness.

This result may not be too surprising when considered in the light of the way investment promotion is in fact organized in developing countries such as those in the survey. The ability of the national IPAs to directly promote their individual countries in foreign markets is restricted either because of the lack of resources or suitably qualified staff. Their promotional efforts are in fact passive in terms of addressing their markets rather than actively perusing investors in their home base.

If however the contribution of investor missions and seminars abroad are added to the work of the IPAs and embassies total, the results increase to an average of 32%. This is probably an over-estimate of the work of IPAs, however, since, for example, inward missions are frequently organized independently of the national IPA. However, it does indicate that investor missions and seminars abroad are significant factors in encouraging FDI in each of the countries surveyed.

Advertising and press reports would not appear to be important. This may require some qualification since most developing countries do not have extensive experience of either advertising campaigns or press programmes to interest potential investors.

The importance of existing investors was most pronounced in the case of Nigeria (36%) and least important in Ethiopia (13%). Interestingly in Nigeria the influence of promotional activity which could be associated either directly or indirectly with the national IPA at 19% was the weakest across the four countries surveyed whereas in Ethiopia it was above average (35%), indicating that the investment message had to be carried by the private rather the public sector. United Republic of Tanzania also illustrated the opposite to this where the State sector would appear to have carried 47% of the message of investment opportunities whereas existing investors accounted for 22%.

### Registration of FDI

Providing investor services is the means through which IPAs actually facilitate and generate investments. The basic idea of the much recommended

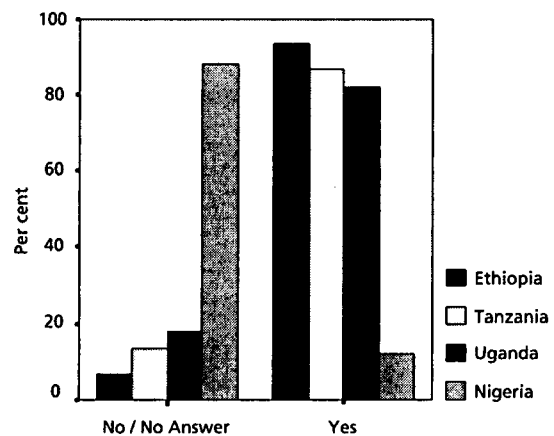
One Stop Shop is that by eliminating barriers and other disincentives, the volume of FDI will improve. The relationship which develops between national IPAs is therefore a significant indicator of how well the One Stop Shop operates in practice. Basic registration is one of the most common services provided to facilitate FDI. Ideally such a system would not be required. However pragmatically such a system is justified by the existence of the many market imperfections which confront investors in the real world, some of which have been identified on the basis of the data presented under table 6 of the present report.

The national IPA is the normal centre for registration of FDI in most African countries both from the point of maintaining a central database and for qualifying investors for government incentives where they are available.

The UNIDO Survey wanted to ascertain how this process worked in practice and to examine the relationship between investors and national IPAs. Investors were asked if the national IPA had registered them. The results are presented as indicated in figure VIII.

On the basis of the response to the survey the vast majority of investors surveyed indicated that they had, in fact, registered their investment with the National IPA. The exception was Nigeria where the

**Figure VIII. Has your company been registered by the country IPA?**



opposite applied. Whereas in the three countries of Ethiopia, United Republic of Tanzania and Uganda, between 82 and 92% of the surveyed firms were registered. In Nigeria the figure was the reverse with only 12% claiming that they registered. Further research is obviously required to fully understand the reasons for this difference.

### Relationship between registration and benefits to investors

In most countries the benefit to the investor in registering their investments is that the certificate of registration is the mechanism which is designed to unlock taxation and other incentives. In theory if not always in practice, certification is also supposed to facilitate and expedite other approvals such as work permits, immigration procedures, land registration and so on. There is much debate as to whether this process does as intended or whether the existing administrative system largely ignores the stamp of approval provided by the system of One Stop Shop investment promotion agencies.

Anecdotal evidence on the effectiveness is widely varied. In some countries it would appear that certification is indeed beneficial whereas in others it does not appear to carry much weight. In this

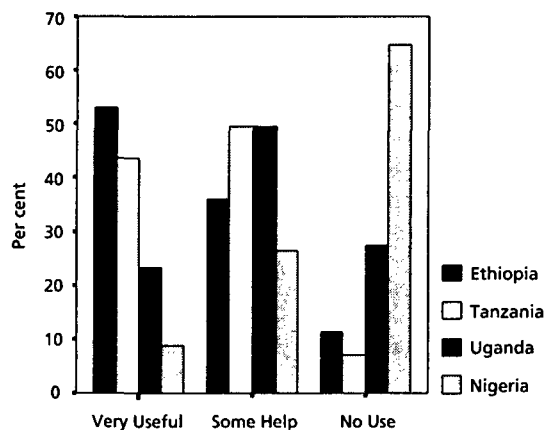
survey the question was therefore asked, "How useful was the certificate?" The results are presented in figure IX.

From this it would appear that the benefit in most countries was positive in the majority of cases. However in 24% of cases, investors found it to be of no use in obtaining incentives and other benefits. This is an unexpectedly high figure, which figure IX indicates is attributable to experience in Nigeria and, to a lesser extent, Uganda.

Again investor experience in Nigeria was the most negative with 65% of investors claiming that the certificate was of no benefit whatsoever. However this needs to be cautiously interpreted in view of the small proportion of companies actually registered with NIPC. Further investigation is, indeed, necessary.

In the case of the two other countries certification would appear to be much more beneficial. In United Republic of Tanzania, 93% of investors reported that the certification process was either very useful or of some help while in Ethiopia almost 90% reported a similar result. This is more in line with what an effective certification process would be expected to produce. There is little point in governments setting up investment promotion agencies in the form of One Stop Shops if their certification is seen by investors and the rest of the administrative system as a useless document.

Figure IX. How useful was the certificate in obtaining benefits? — By country



On the basis of the information gained from the survey it would appear that in Nigeria, and to a lesser extent, in Uganda there is need for a more detailed investigation as to why exactly the certification process appears to count for so little in the minds of investors.

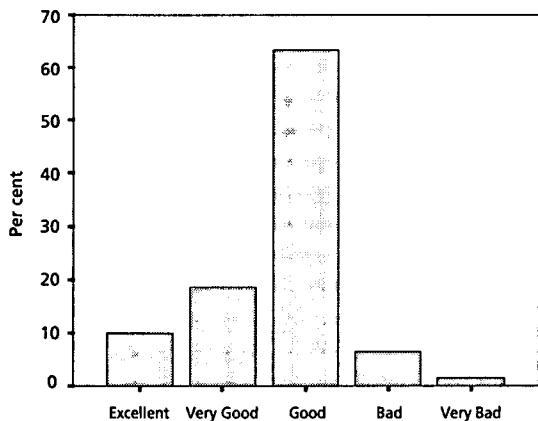
### Efficiency of certification process

The common argument against certification of investment by national IPAs is that the process is inherently inefficient and cumbersome to investors. As has been shown above there is mixed evidence that the system produces the results expected by investors.

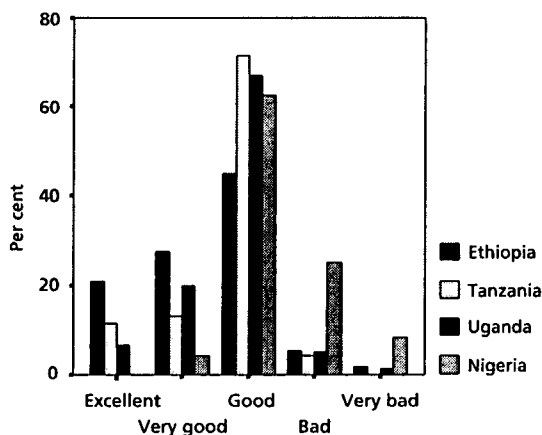
The survey therefore asked investors how they regarded the efficiency of the certification process

itself. This activity is completely the responsibility of the IPA and is, therefore, an important indicator of how it relates to its "customer base" of investors. The responses are set out in figures X and XI.

**Figure X. How efficient was the certification process? — All**



**Figure XI. How efficient was the certification process? — By country**



On the basis of the first chart it would appear that investors regarded the overall efficiency positively. Overall, in excess of 90% of investors rated the process as being good to excellent with the remainder stating that the process was either bad or very bad. This should be regarded as a positive vote for the way in which the agencies conduct themselves with their

client base. It also probably indicates that the shift by the agencies, as recommended in recent years by FIAS, UNIDO and other advisory groups, to move from "approving" investments as they were required to do in previous years has contributed to reducing the bureaucratic overhead facing incoming investors.

The national agencies, therefore, would appear to have made progress in at least reducing this overhead, which was imposed on investors. As has been seen from other parts of the survey, much remains to be done in other areas of the administrative system to reduce the barriers further still.

As can be seen from the second chart, there was a wide gap in the experience of investors between countries. The best performer in terms of positive investor experience was in the three countries of Ethiopia, Uganda and United Republic of Tanzania where over 90% of investors reported good, very good or excellent efficiency in the certification process with few investors calling the process very bad.

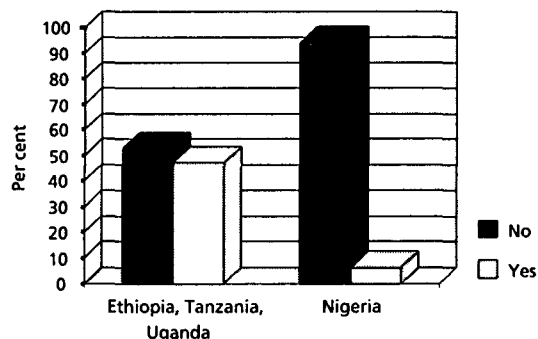
### Additional services provided by IPA

Registration is obviously an important contribution, which IPAs can provide to incoming foreign investors. However, investor servicing, if it is to make a full contribution needs to go much further. Good practice in the field of investment promotion requires that IPAs provide a much wider range of services than that of simple certification. Foreign investors are faced with many uncertainties when commencing operations in a new country. This is widely recognized even in highly developed countries where the range of market services available to a newcomer is extensive and the barriers to their operations is much less.

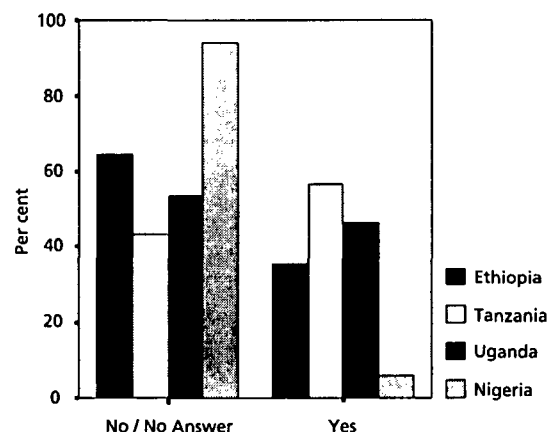
In the case of developing countries, most incoming investors will be much less familiar with local government practices and the business climate. Therefore, they face greater gaps in understanding their new environment than they would on their home territory. Moreover, the range of services which they can obtain locally is in practice severely limited. The task of the IPA is to enable them to bridge



**Figure XII. Apart from registration has your company received assistance from the IPA?**



**Figure XIII. Apart from registration has your company received IPA support?**



this gap and to realize their investment plans in a more efficient manner. The survey sought to understand the level of services provided in addition to the registration process. The responses are presented in figures XII and XIII.

As illustrated from previous responses, there is a sharp contrast between the experience of Nigeria and the other three countries.

In the case of Nigeria over 90% reported a negative response. As a result, little support was received from the IPA. On this basis it may be concluded that there was low level interaction between the Nigerian Investment Promotion Agency (NIPC) and the FDI population.

The other three countries indicated that almost 50% did, in fact, receive additional assistance from the national IPAs as can be seen from the first chart.

Against this benchmark, the highest level of assistance was from the TIC in Tanzania at 57%. The second highest was the UIA in Uganda at 47% and third was the EIA in Ethiopia at 36%.

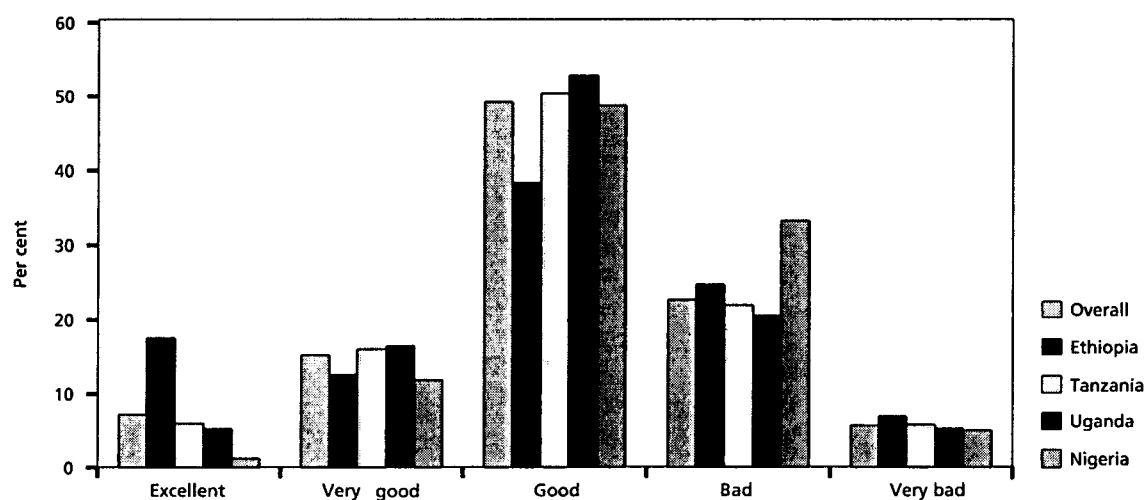
### Ranking of services provided by the IPA

The range of services provided by IPAs to investors is wide in practice. The headings under which investors seek assistance and information is at times limitless. In order to examine the use and rankings of this the survey examined services, provided fewer than 23 separate headings and ranked how they were evaluated under five quality indicators. The results are presented in table 11.

Table 11. Services provided by IPAs in countries surveyed (percentage)

Services availed of	Excellent	Very good	Good	Bad	Very bad	% of companies responding for each service
Economy	5.1	14.3	66.3	13.3	1.0	22.7
Doing Business in Country	6.8	16.5	59.2	17.5		23.8
Professional Bodies	6.9	18.1	58.3	13.9	2.8	16.7
Customers / Markets	3.6	12.0	60.2	21.7	2.4	19.2
Importing / Exporting	4.5	11.4	61.4	17.0	5.7	20.4
Your Industry Sector	6.9	17.6	55.9	15.7	3.9	23.6
Studies Specific to Business	1.4	13.0	49.3	33.3	2.9	16.0
Suppliers		12.9	45.7	40.0	1.4	16.2
Office/Factory Purchase/Lease	5.0	11.7	50.0	26.7	6.7	13.9
Building Construction	1.8	14.3	51.8	21.4	10.7	13.0
Equipment Purchase / Lease	8.2	11.5	39.3	34.4	6.6	14.1
Joint Ventures	11.3	12.9	46.8	22.6	6.5	14.4
General Advice	13.2	19.0	58.7	9.1		28.0
Responsiveness Generally	15.4	22.1	50.0	9.6	2.9	24.1
Services Availed of Incentives:						13.9
Licence Cost Reduction	1.7	11.7	50.0	26.7	10.0	18.3
Import Rebates	11.4	15.2	36.7	26.6	10.1	28.5
Duty Exemptions	17.1	22.0	38.2	16.3	6.5	10.6
Building Purchase / Lease	2.2	13.0	34.8	41.3	8.7	11.6
Equipment Purchase / Lease	6.0	8.0	34.0	44.0	8.0	13.2
Bank / other interest reduce		12.3	22.8	43.9	21.1	23.4
Taxation Reduction	10.9	22.8	36.6	22.8	6.9	13.7
Employment Costs	1.7	10.2	52.5	27.1	8.5	13.0
Marketing Costs	3.6	7.1	50.0	30.4	8.9	3.0
Excise Tax	7.7	7.7	30.8	30.8	23.1	0.2
Overall Average Ranking	7.2	15.2	49.2	22.7	5.6	100
Ethiopia Average Ranking	17.6	12.5	38.2	24.8	6.9	100
Tanzania Average Ranking	6.0	16.0	50.3	22.0	5.8	100
Uganda Average Ranking	5.2	16.4	52.7	20.4	5.2	100
Nigeria Average Ranking	1.3	11.9	48.8	33.1	5.0	100

Figure XIV. Services provided: average ranking benchmark



On the basis of response to these questions, it is clear the IPAs provided assistance to investors under a very wide range of headings. On average, the investors surveyed received advice under four separate headings.

The main headings under which the IPAs provided services as measured by frequency of response by the investors surveyed in the four countries were as follows:

- Taxation and fiscal advice - (e.g. Import rebates (28.5%)/Duty exemptions (10.6%)/Taxation (13.7%)/Licence cost reduction(18.3%))
- General advisory services (28%)
- Doing business in each country (24%)
- Industry sectors (24%)
- The economy (23%)

Others of lesser significance included:

- Importing/Exporting Advice (20%)
- Information on Customers/Markets (19%)
- Professional Bodies (17%)
- Suppliers (16%)
- Employment Costs (13%)

A high level of satisfaction was generally reported with 72% of respondents viewing the services as good, very good or excellent. Less than 6% regarded the overall service as very bad. The highest rating was given to general advisory services where 91% of respondents rated them as good, very good or excellent. This was followed by similar ratings for 'Doing Business in Country' (83%), 'The Economy' (80%), 'Industry Sectors' (80%), 'Duty Exemptions' (77%) and 'Taxation Reduction' (71%). These may be regarded as the core areas of expertise of the IPAs in the minds of investors.

At the other end of the spectrum the agencies were weak in providing information on financial matters such as 'Purchase/Lease of Buildings' and 'Bank Interest Reduction' where dissatisfaction was evident as indicated by a rating of bad or very bad in excess of 50%. Other weakness included information on suppliers specific industry studies and issues specifically in relation to excise taxation. Here the services provided by the IPAs were regarded as bad or very bad.

### Expertise of IPA executives

The survey sought investor opinion on the expertise of IPA executives. This is a critical area since IPAs are indeed a "people driven" business and any organization is as good or bad as the people providing the service. Investors were therefore asked for their views on the expertise offered by IPA executives. The results are presented in figures XV and XVI.

Figure XV. Views on expertise of IPA executives advising on investment — All

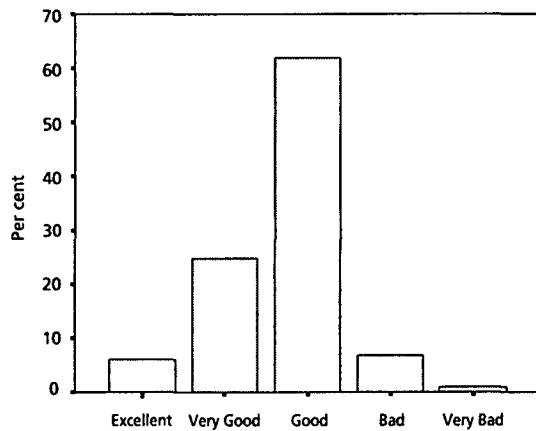
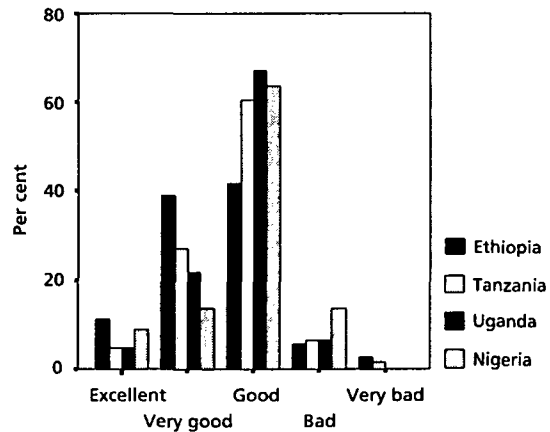


Figure XVI. Views on expertise of IPA executives advising on investment



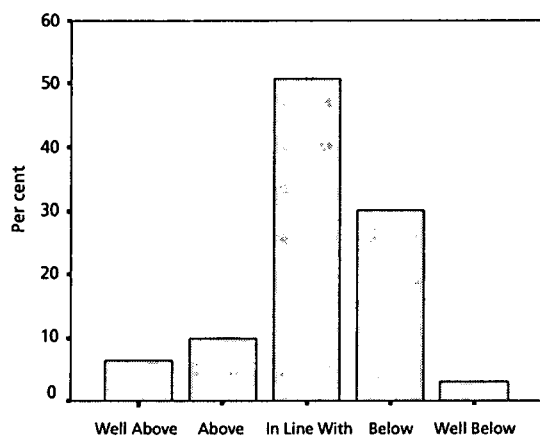
Judging by this response there was a high level of satisfaction with the expertise of IPA executives across all four countries. This may surprise some

critics of the overall system where IPA executives are frequently portrayed as a burden to the overall process who provide little that is positive in assisting FDI. Perception at the level of investors is quite different however and, on the basis of the survey, data executives were rated highly. Across all agencies over 90% of investors rated the expertise as good, very good or excellent. This is a highly satisfying response from the point of view of the executives in the four IPAs surveyed. Only a tiny proportion of investors considered the level of expertise to be very bad.

### Evaluation of IPA performance

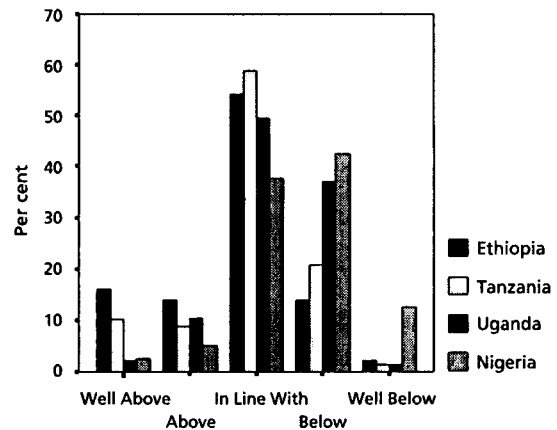
The survey also sought to obtain information on how the investors regarded the performance of the agencies over recent years. They were therefore asked if the IPA performed to expectation over the previous three years. Responses are presented in figures XVII and XVIII.

**Figure XVII. Has the IPA performed to expectations in the last 3 years? — All**



The survey revealed some important distinctions between the rating of executives individually and that of their organizations. On the basis of their responses to the survey, investors gave a higher rating to the executives than they did to the organizations for which they worked. While the executives received a 90% approval rating on the basis of the information presented above for their performance

**Figure XVIII. Has the IPA performed to expectations in the last 3 years?**



the best that can be said for the organizations is that they received a 70% rating.

In general terms the largest group, representing 50% of investors, felt that the IPAs performed in line with expectations and a further 15% indicated above or well above expectations. However the next largest single group representing 30% ranked the IPA performance below expectation with a further 5% ranking it well below. While the positive respondents undoubtedly outnumbered the negative in the ratio of 2:1 nonetheless there was an unhelpful reaction from a highly significant minority of IPA clients. This must be a source of concern to senior management and boards of the IPAs in all four countries.

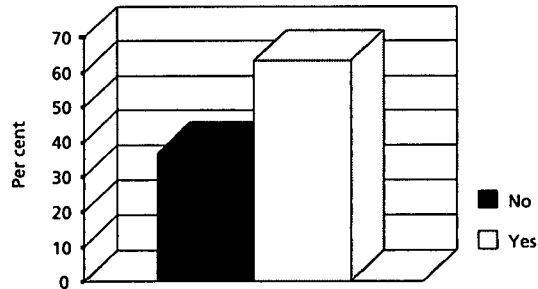
However, it must be noted there were some significant divergences between individual countries. Not all agencies were similarly regarded. On the basis of the above data Ethiopia would appear to enjoy the highest performance relative to investor expectations of the four countries surveyed. Tanzania ranked second Uganda third and Nigeria fourth.

These figures are difficult to reconcile when placed against the satisfaction levels expressed by investors in relation to existing investment in both Nigeria and Uganda where investors in both countries reported the highest level of satisfaction with existing returns on their investment. This was reported in table 5. Moreover on the issue of future plans the foreign investors in Nigeria and

Uganda indicated very strong commitment to further expansion.

There are obviously some contradictions in this result. It does not conform to the findings presented in other sections of the report such as those reporting on the expertise of executives in the IPAs or the desire for future contact with staff. The data therefore does give a number of contradictory signals on the relationship between FDI projections and the standing of individual IPAs. This may in fact reflect on the low involvement of the respective IPAs in the investment decision making by the investors themselves or may be due to some other unknown factors involved. In any event, deeper exploration in future surveys is required.

**Figure XIX. Would you like to be contacted by the country IPA to discuss further investment?**



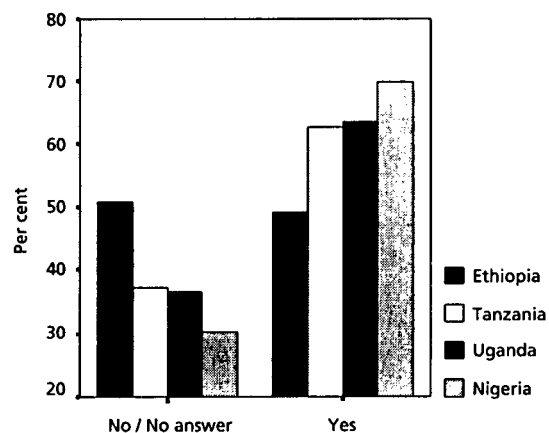
### Future relationship between investors and IPA

Successful IPAs develop and maintain close relationships with their client base of foreign investors. This is regarded as a fundamental best practice technique among the most successful agencies since it enables the agencies to keep a pulse on investor performance and their future investment plans and aspirations. Moreover, it is a most cost effective technique since existing investors are easy and inexpensive to contact on an ongoing basis.

Because of the importance of such contact, the survey, apart from the questions posed above, asked investors if they would like to be contacted by the country IPA to discuss further investment. Anecdotal evidence in each of the four countries surveyed suggest that such relationships are not close and this has more or less been confirmed by the data presented so far where less than 50% on average received additional assistance from their IPA apart from registration. The answers to this question are provided in figures XIX and XX.

The overall response from investors to this question was very encouraging. Across the board over 60% would welcome contact with their IPA, with a higher response in some countries, to discuss future investment plans. This ranged from 70% in Nigeria to 49%

**Figure XX. OK to be contacted by the IPA to discuss investment?**



in Ethiopia. This percentage confirms that national IPAs are more or less pushing open doors to the FDI client base. This is a very positive result from the point of view of the national IPAs. It means that the investors are open to developing a positive relationship and dialogue with the national governments and their investment promotion agencies.

This provides the basis for developing an appropriate client management relationship programme between the IPAs and their client base. This could also be further assisted by the data obtained during

the present UNIDO survey. On the basis of the information collected under the section dealing with future investment plans, those surveyed gave detailed and quantified information on their actual investment projections.

This information, as has already been indicated, could become the basis for productive dialogue between the IPA and individual investors. The objective would be for the IPA to provide every assistance to the investor to realize these plans. As has been demonstrated already investors have, in practice, valued much of the skill base and the services provided by the national IPAs notwithstanding some areas of criticism. This is something for the IPAs to build on and improve to the mutual benefit of their own organizations and their customer base of foreign direct investors.

## Summary of IPA performance and FDI

The most important influencing factor in arriving at investment decisions was the experience and recommendation of existing investors, other business connections and suppliers. 50% cited this as the most significant influencing factor.

Investor missions and seminars are also significant in creating initial awareness of investment opportunities. A somewhat surprising finding was the result that the national IPA was only responsible for less than 10% of awareness creation while the national embassy network was responsible for less than 5%. The vast majority of investors surveyed indicated that they had in fact registered their investment with the IPA. The exception was Nigeria where this did not appear to apply. However, this needs further investigation.

From the point of view of indicating the benefits of actively promoting the countries to the FDI community the survey provided substantial evidence of this. If IPA directly related activities and missions by investors, both inward and outward, are combined they account for 32% of awareness of opportunities for investors. From this it would appear that the benefit in most countries was positive in the majority of cases. However, in over 20% of responses, investors found it to be of no use in obtaining incentives and

other benefits. This figure is far too high and agencies and administrations have an obligation to see it reduced. There is little point in governments going to the expense of setting up national IPAs if their decision-making process in relation to certification is made useless by other government departments.

In relation to efficiency of registration by IPA staff, in excess of 90% of investors rated the process as good to excellent. On the basis of the survey, registration would appear to be the single most important relationship area between the FDI population and national IPAs, that is if the experience of Nigeria is not included. In the case of Nigeria there appeared to be a very low level of contact between the NIPC and the FDI population base. If experience in the other countries is any guide, it would appear that around 50% of the FDI population did receive additional services from the national IPA. The main areas under which assistance was given were:

- Taxation and Fiscal Advice - (e.g. Import Rebates (28.5%)/Duty Exemptions (10.6%)/Taxation (13.7%)/Licence Cost Reduction (18.3%))
- General Advisory Services (28%)
- Doing Business in Each Country (24%)
- Industry Sectors (24%)
- The Economy (23%)

Most investors reported high satisfaction levels with the standard offered under each of the above list of services. Not all areas received full approval however. In areas relating to financial matters, especially in the private sector, the agencies were regarded as very weak by investors.

Investors, as already indicated, reported a high level of satisfaction with the expertise of IPA executives in each of the four countries. This indicated that executives were able to build good client relationships with investors. However, as noted, this was on a narrow rather than a broad range of issues. Highest satisfaction levels were in areas relating directly to the public service and weakest where deeper knowledge of the operation of the commercial sector was required.

When investors were asked to rate the performance of the IPAs as an organization as distinct from that of the executives, they gave the IPAs a lower satisfaction rating. A significant proportion of investors rated the performance of the national IPA as below or well

## FOREIGN DIRECT INVESTOR PERCEPTIONS IN SUB-SAHARAN AFRICA

below expectations. This low evaluation by so many client firms has to be a major source of concern to the national IPAs. Not all IPAs were rated equally however and there was a significant gap between individual countries. It is clear this is a major issue to be addressed by the IPAs on a national level.

Despite these difficulties investors expressed a strong desire to build closer contact with their IPAs. A majority indicated that they would welcome an opportunity to discuss future investment plans with their IPA. This is a very important indicator for the future. Experience in developed countries indicates that successful IPAs have, as a matter of course, the ability to interact with the FDI community, to gain their respect and confidence and positively influence their investment activities.

A closer relationship between the FDI populations in the four countries surveyed would form the basis for such an approach in the context of Africa. IPAs could in time develop the skills and the ability to increase the flows of FDI through using the existing investor base as a vehicle to also influence new investors. If they could do this they would have found a way of addressing another problem which affects IPAs in Africa but also in other parts of the developing world. That is their inability, due to financial and other constraints, to promote their countries in foreign markets in a more or less similar manner to IPAs in developed countries. This would be a major breakthrough in promoting the African continent to the international investment community.

## UNIDO survey implications

The inferences which may be drawn from the results already presented in the UNIDO Survey 2001 will vary depending on the perspective of the different organizations involved in the development process and FDI promotion. The following sections of this report set out the implications which may be drawn from the standpoint of three of the principal organizations responsible for and deeply involved in encouraging FDI either from the national or international perspective.

- Implications for national IPAs
- Implications for governments
- Implications for international development agencies

### Survey implications for IPAs

The implications from the point of view of IPAs are far reaching. They may be presented under the following headings.

- Relationship with existing investors
- Organization structure
- Services provided to investors
- Prioritizing promotion programmes

#### **Relationship with existing investors**

Perhaps the most startling single piece of information emerging from the survey was the marginal role that the national IPAs played in creating awareness of investment opportunities for investors. Only a small number of investors attributed their awareness either to the direct work of national IPAs or the embassy network. From the point of view of awareness creation, the significance of the national investment promotion agency was dwarfed by the role of existing investors suppliers and those with business connections to the individual country. This is not to say that the IPAs had no role. Investors with the exception of Nigeria, relied on the services of the local IPA for registration services, which are essential for obtaining investor incentives and other services. This certification process was the first level of assistance, which on the whole has been viewed as beneficial, despite some insignificant problems. There is clearly the need for the certification process to become established for what it was intended to be a way to smooth the path of investors within the administrative system. Many of the additional information services being provided were also well regarded by investors. Those most valued tended to be within the administrative rather than the commercial sectors. There are indications that executives within IPAs need to become more familiar with investor needs, which relate to the private commercial especially in the financial services areas.

This survey points to the need for IPAs to make strenuous efforts to develop close relationships with the existing FDI sector and the wider commercial sector. This would include



Chambers of Commerce and other organizations within the business sector such as banks accountants and other service providers to the business community. This because, as was clearly demonstrated in the survey, these organizations play a pivotal role in influencing investment from the existing base but also they are the most influential force for influencing new investors. This is perhaps the most important single lesson to be drawn from the survey as a whole.

This survey revealed an interesting distinction between the way investors regarded individual executives within IPAs and the organizations themselves. Basically they ranked the organizations lower in their estimation. This is an issue for boards and senior management to address and probably requires a better presentation of what the IPA as an organization represents to investors. A better regard for the certification provided across other areas within the system could be a good place to start building this image.

Finally, the survey did indicate a number of ways through which IPAs can promote their country to investors on a low cost base. Firstly, by focusing strong attention on investment promotion to the existing investor base and the general business community. Secondly, by actively involving them in as many aspects of the investment promotion process as possible. Thirdly, by adopting a proactive approach to inward investment missions and a selective approach to seminars and other group activities abroad. These are all relatively inexpensive means of investment promotion.

### **IPA organization structure**

Developing closer relationships with the existing FDI client base requires an organizational structure designed to achieve this in an effective and efficient manner. One very positive feature of the survey was that it showed the vast majority of existing investors actively welcomed better and closer contact with their IPAs. Promotion agencies are therefore pushing at an open door policy when it comes to developing contact with their existing customers.

To achieve this, IPAs should be organized to facilitate implementation of an appropriate client

management relationship programme. This involves team building within IPAs and dedicating them to working with existing investors rather than, for example, trying to manage the business of new investment promotion at the same time.

Developing good and better than good relationships with existing clients requires that staff in IPA receive the training necessary to enable them to carry out this function. This is an activity which should receive priority within all the IPAs surveyed.

From this it also follows that separate teams should be formed to work specifically with potential incoming investors, inward missions and group visits to foreign markets.

### **Providing services to investors**

The survey strongly indicated that investor's primary relationship with IPAs consisted of certification of their projects. This, for the most part, was highly valued. However for around 50% this was the end of the relationship. Yet the 50% who sought further assistance in a number of specific areas such as basic information on the economy and specific taxation areas also greatly benefited from the services provided by the local IPA. It would appear therefore that there is scope for the IPAs to further improve the range of services offered in the form of extending assistance to the 50% which did not receive any assistance, and improving the services in areas which assistance was sought but received an inadequate response. Areas where response was judged to be valuable to investors included:

- Taxation and fiscal Advice - (e.g. Import Rebates (28.5%)/Duty Exemptions (10.6%)/Taxation (13.7%)/Licence Cost Reduction (18.3%))
- General Advisory Services (28%)
- Doing Business in each Country (24%)
- Industry Sectors (24%)
- The Economy (23%)

Services under these headings could probably be extended and standardized. For example, through the better use of information technology for storage and distribution to a wider audience.

The survey indicated that certain areas if assistance was inadequate principally in relation to the

commercial banking sector. There is obviously an area requiring more time and attention from executives within IPAs.

### **Prioritizing future promotion programmes**

The first priority for IPAs, as has been stated already, is to work with the existing investor base. To do this they need to formally implement appropriate client relationship management programmes. These do not exist in African IPAs at present. Contact with investors tends to either be non-existent or focused on a few high profile clients and the majority are simply ignored. IPAs will therefore need to restructure their operations to formally address this issue.

The second main implication arising from the survey is to address the low ranking which IPAs enjoy in creating awareness and building on the advantages they offer investors. From the survey they only have a marginal role in this area. There is no doubt that this is due to the fact that IPAs, especially in Africa, do not have the resources to make much impact on the marketplace.

IPAs need therefore to find new means and preferably low cost ways to improve this. The existing client base is again the best place to start since it is they who will have to carry much of the message. There are a number of ways through which this can be capitalized on.

First, by involving the existing FDI sector to the maximum extent in every aspect of FDI promotion. In each country, IPAs should identify a focused group of FDI players who have the capability to become "good ambassadors" to other investors abroad. They should involve them as part of the national team to sell their country to investors both at home and abroad.

The survey gave detailed information on future investment intentions of existing investors. From this it is possible to identify \$5.6 billion in planned future investment and to pinpoint those who were to be the lead investors over the next three years. This information will enable the IPAs to focus their promotion on those most likely to yield the most immediate results. This will also identify sectors and

subsectors which are also likely to become success stories in the future. Again an obvious base on which to build effective focused promotion.

Such an approach would provide the basis which would enable African IPAs to move towards a much more focused effort to promotion of their country as a location for FDI. This would be the beginning of a new and hopefully more effective way of doing business. There still remains the central issue of lack of promotional resources available to the typical IPA. There is little information available on this at present and in a later section some ideas will be presented as to how we may address this important issue.

### **Survey implications for national governments**

In general terms the implications that can be drawn by national policy makers are positive. In each location, investors report a reasonable level of satisfaction with the performance of their investment. Moreover, they are not planning to reduce investment in the future. Instead they plan to increase investment over the next three years. In some firms by a substantial degree.

The review of motivation indicates however that the domestic rather than regional or other African markets will determine future growth. This is a potential weakness since future growth in investment is likely to be dependent on local economic conditions with little by way of spread in risk through diversity of output to other markets. However, if experience elsewhere is a guide the development of different trade blocks that are now developing in Africa could mean a change in this situation and investors will give more weight to the possibility of serving wider regional rather than just local markets. From the survey, there were some slight indicators that this may be beginning to happen in both East and West Africa.

The survey indicated a close relationship between future investment plans and satisfaction with existing investment returns. The two countries which scored highest in relation to best returns — Nigeria and Uganda — also planned strong investment for the future. Maintaining a competitive environment for future investment is therefore of critical importance.

The survey in fact noted that the investment environment was a restricting factor for future expansion by a significant proportion of investors. A major reason why investors failed to reach expectations were the constraints presented by bureaucratic inefficiencies within the system. These increased overheads and associated costs and directly reduced investor returns. To a certain extent this is not new information to governments in each of the four countries surveyed. However, it is yet another example of the investment environment being made less attractive by the actions of government departments and therefore the responsibility of government itself.

Within the administrative system, however, there were some positive indicators of success. Governments can take some satisfaction that the One Stop Shop approach is perceived to be of benefit by the FDI Community judging by the response to the usefulness of the registration process and the efficiency rating given to individual executives.

However, it is clear that there is much work to be done. The percentage of investors that claimed that the certificate was "of no use" is too high in all countries surveyed. There is clearly room for improvement here since it is the purpose of the certification process to improve the reception which investors receive when they interact with other sections of the Public Administration. If this does not happen the reputation of the IPA, the Administration and the country suffers alike in the minds of the FDI community.

An indication of this might be the finding that existing investors had a much higher regard for individual executives within the national IPAs than they did for the organization as a whole. It would be preferable if both the IPAs and their executives were held in equal and not differing esteem.

From the point of view of national governments, an obvious benefit to conducting the UNIDO survey on an annual basis is that it would enable them to benchmark performance and introduce programmes to improve activities responsible.

The data obtained on future investment plans by the firms surveyed should also be beneficial from the point of view of national governments. In most developing countries, such data is completely lacking due to defects within the National Statistical Services. The UNIDO survey conducted on an annual basis would provide information on future trends and be another benchmark for governments, especially since they will be able to compare expectations with those in other African countries. Future investment plans could provide an index of future investor plans and expectations. Such a measure is lacking for governments in virtually all developing countries.

### Implications for development agencies

Development agencies such as UNIDO, which are working, among other things, to improve the flow of FDI to developing countries, need to have better information on the performance and future investment intentions of the investment community.

Information on such issues as future investment plans on a country-by-country basis in Africa would undoubtedly be of assistance in planning and designing future assistance programmes.

A better understanding and more detailed knowledge of what the actual mechanics of the investment process and how it is changing is essential if programme planning and design is to be developed in a meaningful manner.

Reliable information on the performance, of national IPAs, their areas of success, their failures and their general conduct in the business of attracting FDI is almost non-existent. Designing programmes of assistance is frequently a shot in the dark and there is little opportunity to evaluate the positive and negative developments over time. The survey would provide such inputs and would also, as will be suggested in the next section, be capable of further extension to provide for future programmes.

## Future development of UNIDO Investor Survey

The following programme is proposed:

- First, continue and refine UNIDO Investor Survey.
- Second, initiate annual survey of client employment on a certain date each year.
- Third, extend the number of countries to cover 14 sub-Saharan African countries for the next stage of the survey.
- Fourth, as value added content of investment and expertise grows — initiate a pilot and, eventually, a full survey on the economic expenditure effects of companies activities in the country — (e.g. wage and salary expenditure on all and local materials and services).
- Fifth, use the survey to obtain a better understanding of the resources currently available to African IPAs (as presented in the annex).

African IPA's FDI promotion efforts need to become more effective to increase FDI flows to their respective countries. There is virtually no information available on the level of resources devoted to FDI promotion in Africa or for that matter other developing countries. Advice is therefore frequently offered in a vacuum as to what is effective in an African context by the International Development Organizations.

At present they lack an FDI promotion model, which is appropriate to their resource base and individual circumstances. In so far as they do have a model they attempt to follow those developed by developed European countries where the resources available are far greater than that available in Africa.

The data gathered in Survey 2001 provided valuable information on influencing mechanisms for FDI on a country-by-country basis. For example, it supported the argument that IPAs need to develop closer links with the existing FDI base in order to facilitate present investment planning and increase the future FDI flows. The study showed clearly the importance of this base as a foundation for future investment development.

The survey data strongly indicated that IPAs had, in fact, little influence in investors decision-making and country selection. The reasons for this need to be investigated. A review of the techniques currently being used for FDI promotion and the level of resources available at IPA level would assist understanding of this. It is therefore proposed to extend the study to the level of IPAs and their actual approach to the market. There is little information available on such issues as the staffing and the level of expertise within African IPAs, the annual budgets available for investment promotion, the techniques employed to attract investors or a range of output indicators which would be of assistance in evaluating individual IPA performance. The structure of the existing UNIDO Survey could be profitably altered to accommodate collection of this information on an annual basis.

## Annex. Pilot survey questions

1. Business sector (select from list of options in appendix 1).....
2. Number of employees - sub-Saharan Africa (SSA) (tick one box)
3. Number of employees - country (tick one box)
4. Annual Sales - SSA \$ (tick one box), k = thousand, m = million, bn = billion
5. Annual Sales -country \$ (tick one box), k = thousand, m = million, bn = billion
6. Value of current investment—SSA \$ (tick one box) k = thousand, m = million, bn = billion
7. Value of current investment—country \$ (tick one box), k = thousand, m = million, bn = billion
8. What sales growth do you expect per annum over the next three years:
9. What sales growth do you expect per annum over the next three years: sub-Sahara
10. What sales growth do you expect per annum over the next three years:
11. What level of new (i.e. in addition to depreciation replacement) investment could you consider making over the next three years in sub-Saharan Africa %/\$
12. What level of new (i.e. in addition to depreciation replacement) investment could you consider making over the next three years in country name %/\$
13. How was your company originally made aware of investment opportunities in country? (tick one box)
14. Why did you invest in country? (tick appropriate boxes)
15. Has your company been registered by the country IPA? Yes  No
16. How useful was the certificate in actually obtaining taxation and other benefits set out below (tick one box)
17. How efficient was the certification process? (tick one box)
18. Apart from registration has your company received assistance from the country IPA? Yes  No
19. What services did your company avail of from the country IPA? Select from following list of services and indicate how you would rate the services used (circle the numbers for the services used and tick one box to rank)
20. Please give your views on the level of expertise of the IPA executive(s) who advised you on your investment in country (tick one box)
21. What are the top three improvements you suggest the country IPA make to their services? Please use block capitals
22. What are the three least useful services that should be considered for elimination? Please use block capitals

## FOREIGN DIRECT INVESTOR PERCEPTIONS IN SUB-SAHARAN AFRICA

23. How has the country IPA performed compared to expectations in the last three years? (tick one box)
24. Has your investment in insert country name performed to expectations in the last three years? (tick one box)
25. What are the main reasons? (tick appropriate boxes)
26. Tick boxes if you would you be recommending (further) investment in:
27. What is your preferred location for future investment to serve African markets - Select from list of countries in appendix
28. Please give the main reasons for your answer - Please use block capitals
29. What are your top three requirements from the host country to facilitate such investment - Please use block capitals
30. Would you like to be contacted by the country IPA to discuss (further) investment in country?  
If you indicated yes, please be assured that, unless you give permission by answering yes to Q31, apart from your contact details none of the answers to the questions you have provided will be passed on to the IPA.
31. Do you wish to give your permission for the information in the questionnaire to be provided to country IPA?

Contact and Reference Section—this information is only required to facilitate clarification of responses, if required. It will not be added to the responses database. If you indicated yes to Q 30 and no to Q 31 the contact information only will be passed to the IPA for follow up.

Name of person representing company completing the questionnaire—please use block capitals; Position; Contactable at address; Telephone No; Fax number; E-mail address.

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