UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

Regional Programme for Investment Promotion in Africa

Promoting quality FDI

African countries are very aware of the value of foreign direct investment (FDI). They know that quality FDI in productive sectors will help them to diversify their economies beyond the resource-based sectors where little value is added, that it will encourage domestic investment, bring in skills, technology and market access and lead to economic growth and social development.

They have made commendable efforts, through legislative and procedural reforms, to improve their investment climate and attract the right kind of FDI. But the sparse inflows of FDI to the continent are still mostly concentrated in a few resource-rich countries, and FDI inflows elsewhere rarely contribute significantly to the development of their economies.

There are a number of reasons for this. One of the most critical is the weakness of their national institutional infrastructures. The market-supporting institutions that should provide accurate public information, set standards and enable market agents to assign resources efficiently, are only just emerging. As a result, failures in the market are not adequately addressed, appropriate forms of FDI not identified and targeted, and local supplier shortfalls in meeting investor requirements not recognized and remedied.

African investment promotion agencies (IPAs) and other intermediary organizations are now tackling this information and capability shortfall. They are pursuing ways to go beyond their traditional function—promoting their country and attracting FDI in general—to taking on a more pro-active role as agents of development who will attract quality investment in productive sectors and mobilize supportive business services. To succeed in this, they must find the answers to six essential sets of questions:

- *Foreign investors:*
    - What are foreign investors actually doing on the ground?
    - What trends are emerging in the way they do business?
- *Domestic investors*:
    - How are domestic investors benefiting from FDI?
    - How are they responding to it?
    - To what extent are their actions affecting FDI decisions?
- *IPAs and policy-making:*
    - If the IPAs are to influence government policy and become effective advocates of reform, what kind of empirical evidence do they need to collect?
- *IPAs and foreign investors:*
    - How are foreign investors responding to IPA initiatives?
    - How effective do they find IPA services?
    - Which groups of investors are most in need of IPA services?
    - Do investors face any additional problems?
- *IPAs and domestic investors:*
    - How can IPAs support domestic investors?

- *Domestic and foreign investors:*
    - How can foreign investors be encouraged to increase the local content of their supply?
    - What kind of information do they need to develop effective strategies for local sourcing?
    - What sort of assistance is needed to help local suppliers respond to foreign buyer requirements

With detailed, comprehensive and empirically sound answers to these questions, IPAs and other intermediary organisations will be much better able to promote investment, influence government policies, maximise the impact of the resources that are put into investment promotion and, very importantly, achieve consensus among national stakeholders around a common investment promotion strategy.

Getting these answers and acting on them is undoubtedly a major challenge. But it is a challenge that the IPAs, in cooperation with UNIDO and with technical support from the Microsoft Corporation, have found an innovative and sustainable solution to—the Platform for Investment Promotion in Africa.

The Platform for Investment Promotion in Africa

The Platform for Investment Promotion in Africa, also referred to as the Investment Monitoring Platform, is a web-based interactive database that will provide detailed information on foreign investors and domestic enterprises in more than 20 countries in sub-Saharan Africa. Extensive surveys will be carried out on a bi-annual basis in these countries to generate data for the platform. This is the continuation of UNIDO's successful African Investment Promotion Agency Network (AfrIPANet) (see Box 1). This data will capitalize on the experience in organizing the investor surveys in 2001, 2003, and 2005 and help identify different types of investors (see Box 2), their performance, their varying impact on the host economy, their perception of investment climate parameters and their service expectations from local institutions. This company-level data will be a valuable complement to aggregated statistics collected by the national central banks on FDI inflows and stocks.

The platform will bring a previously unknown level of transparency to business operations in sub-Saharan Africa. IPAs and other intermediary organisations will be able to monitor trends in investment flows, measure their impact on the local economy and evaluate interventions, advocate evidence-based policy proposals, and target and support quality investors.

The platform's unique supplier-benchmarking tool will enable local suppliers to see where they need to upgrade to meet buyer requirements. Subcontracting and Partnership Exchanges (SPXs)—the centres set up by UNIDO to match domestic suppliers with international buyers in over 60 developing countries—will then help them do so, and will use the database to leverage buyers, who will now be able to draw on the platform to identify growth areas.

IPAs and other stakeholders will establish a governance system to run the project, which UNIDO will help to maintain and sustain and which will facilitate the development and adoption of investment promotion strategy proposals based on the empirical evidence from the surveys. UNIDO will also provide capacity building in the skills needed to establish, contribute to and make the best use of the platform.

As well as its considerable enhancement of the work of IPAs, the Investment Monitoring Platform will be invaluable to a wide range of beneficiaries: regional economic communities, civil society and international development partners, with the private sector being the ultimate beneficiary.

Box 1: Origin of the programme

The Programme for Investment Promotion in Africa brings together two successful UNIDO products: the African Investment Promotion Agency Network (AfrIPANet) and the Subcontracting and Partnership Exchanges (SPXs).

AfrIPANet

UNIDO established the African Investment Promotion Agency Network (AfrIPANet) in 2001 as a platform for the development and implementation of investment-related activities in sub-Saharan Africa. Composed of more than 25 IPAs, it constitutes a forum for IPAs in Africa, representatives of UNIDO Investment and Trade Promotion Offices (ITPOs), academics, and chief executives of companies with operations in the region. An integral part of the AfrIPANet programme is the execution of bi-annual surveys of foreign investors, the results of which bring to the fore issues of relevance for investment promotion agencies. Three bi-annual surveys of foreign investors were conducted in 2001, 2003 and 2005 to compile firm-level data that can be used as a basis for formulating investment promotion strategies.

In June 2006 the heads of IPAs met to discuss the findings of the 2005 UNIDO Africa FDI survey that highlighted current trends, opportunities and weaknesses in FDI promotion in Africa. A follow-up programme was proposed that would use the survey data systematically to strengthen national capacities for evidence-based policy advocacy and more resource-efficient investment promotion strategies. The programme was further developed by investment promotion stakeholders in validation meetings in the countries covered by the survey.

Subsequently, at a high level Expert Group Meeting, sponsored by the New Partnership for Africa's Development (NEPAD), the Africa Union (AU) and the Economic Commission for Africa (ECA), in Addis Ababa in 2007, key African stakeholders from both the public and private sectors drew up a detailed programme to institutionalize this new AfrIPANet approach throughout the continent. The Executive Head of NEPAD endorsed the establishment of an Investment Monitoring Platform, as proposed in this programme, since it "*provides an excellent basis between policy makers on the national, regional and continental levels*" and "*enables policy makers to build a consensus on the needed policy reforms*". The Conference of African Ministers of Industry adopted the programme in their Action Plan which was subsequently successfully endorsed at the African Union Summit in 2008.

Subcontracting and Partnership Exchanges (SPXs)

Over the last 25 years, UNIDO has established some 60 SPXs in more than 30 countries worldwide, creating a network that aims to help local enterprises successfully meet the challenge of globalization by becoming suppliers or subcontractors to trans-national corporations. In Africa there are currently SPXs in Côte d'Ivoire, Ghana, Madagascar, Mauritius, Morocco, Senegal and Tunisia, and UNIDO is setting up additional exchanges in Kenya, Tanzania, Nigeria and other countries.

This original network has provided an information portal for matchmaking suppliers and buyers, and has been effective in dealing with short-term buying contracts on the basis of 'requests for quotations'. However, UNIDO saw the need to revisit this traditional SPX approach and re-align it to the current challenges of globalization. Following the recommendations of an Expert Group Meeting in 2007, UNIDO, together with the South African Government and large South African state-owned enterprises, brought out a new supplier development programme. This programme will enable the benchmarking of current supplier capacities and support suppliers in achieving the levels required to penetrate the supply chains of the main contractors. The tools and methodologies developed in the South African supplier benchmarking programme will be used to promote supplier development across the African continent and provide a comprehensive set of solutions to link investment and trade promotion with supplier development.

Box 2: Investor survey groupings

The Investor Monitoring Platform draws on the methodology and findings of UNIDO's Africa Foreign Investor Survey 2005, which will be further developed and refined in subsequent bi-annual surveys. This survey analyzed and compared the actions, operational characteristics and impact of different investor types in Africa. It shed light on the increasing diversity of foreign investors: their dynamism, their impact on local economies, and their perception of risks and location factors. The survey sample was split into six investor-type groupings:

Organizational structure: subsidiaries of large transnational corporations (L-TNCs) which have considerable global group sales; subsidiaries of small transnational corporations (S-TNCs) with modest global group sales; and foreign-owned and operated firms that are not subsidiaries of a foreign based enterprise but are owned and operated by a foreign entrepreneur (FE). The survey sample consisted of 25% L-TNCs, 25% S-TNCs and 50% FEs.

Investor origin: investors whose home countries are highly industrialized ('North'; 46% of the sample) and those from developing countries ('South'; 54% of the sample).

Market orientation: local market seekers (who do not export or do so only marginally), regional market seekers (with a substantial portion of their sales exported to sub-Saharan Africa), and global market seekers (with substantial exports to global markets). Local market seekers accounted for nearly 75% of the sample.

Main sectors: agro-business (4% of the sample), manufacturing (49% of the sample) and services (47% of the sample) sectors. In the primary sector, enterprises involved in hydrocarbon and mineral extraction were excluded because their business motivations differ from those of non-resource-based foreign investors.

Share structure, where operations are defined in terms of the percentage of foreign ownership: More than 90 per cent foreign-owned are categorized as wholly foreign-owned enterprises (WOE) and those between 10 and 90 per cent foreign-owned as joint ventures (JV), while those with less than 10 per cent foreign capital were *a priori* removed from the sample. There is some propensity for firms to opt for wholly foreign ownership.

Start-up date: enterprises are grouped according to whether the foreign investor started operations in the host country before 1980, in the 1980's, in the 1990's, or after 2000. Most of the firms in the sample were established in the 1990's, followed by 25% that started operations after 2000.

Investment promotion

The IPAs and other intermediary organisations will be able to use the platform to:

1. *Monitor* emerging trends in investment flows at the enterprise level;
2. *Evaluate* alternative interventions and, through continuous updating, measure investor responses to these;
3. *Advocate* evidence-based policy proposals that mainstream investment promotion issues in discussions of the national development agenda;
4. *Target and support* quality investors with the potential to have a high economic impact;
    - Assess variations in the impact of the different categories of foreign investors on the domestic economy, compare their behaviour in different sub-sectors, and see how they interact with domestic investors;
    - Devise appropriate targeting strategies to attract and cultivate these quality investors;
    - Identify the needs of those investors who have already had a proven positive impact on the local economy, and provide better services to support them;

Local supplier support

With the platform's supplier benchmarking methodology, domestic enterprises will be able to assess themselves against similar companies. SPXs will then be able to:

- Draw on the platform's databases to help large trans-national and domestic companies and public bodies assess which of their procurement needs can be sourced locally;
- Form strategic partnerships with these organisations and leverage them as potential buyers and contractors for local goods and services;
- Conduct a gap analysis of where local suppliers' capacity falls short of buyer requirements;
- Provide suppliers with technical assistance and, when needed, assist them to formulate investment proposals aimed at closing the gaps;
- Mobilize the financing and identify the technology partners needed to upgrade local suppliers;
- Use the platform to generate supply chain mapping studies to develop clusters of companies in specific sectors and reduce bottlenecks in local multi-tier supply systems.

Governance system

Investment promotion in developing countries involves a wide range of stakeholders: government institutions, the private sector, financing institutions, civil society and other development partners. Investment promotion will be most effective when these stakeholders can maximise their individual contributions and synchronise their efforts with a shared perception of the facts, agreement on policies, and co-ordination of resources and activities.

In the Investment Monitoring Platform, each stakeholder will be a 'co-developer' who will not only retrieve information but will also enrich the database by contributing new input. The organisational structures that IPAs, supported by UNIDO, will set up to oversee and implement the programme will facilitate networking and team-building. The presence of government ministers on the National Steering Committee (NSC), for example, will ensure that policy proposals by the implementing bodies, i.e. the IPAs, National Statistics Offices (NSOs) and Chambers of Commerce, will be given a high level hearing. Most importantly, there will be a consensual approach to investment promotion where hitherto a fragmented approach has given mixed signals that confused and deterred investors.

Capacity-building support

UNIDO will provide capacity building in the skills needed to establish, contribute to, and make optimal use the platform's considerable potential. IPAs and other intermediary organizations will then be able to:

- Carry out research;
- Design investment promotion strategies;
- Deliver services to foreign investors, especially aftercare services.

Implementation

The programme will be implemented in four components:

Component 1: Set up organisational structures, carry out sensitisation campaigns, and conduct investor surveys to provide data for the Investment Monitoring Platform.

Component 2: Develop the Investment Monitoring Platform.

Component 3: Build the capacity of IPAs and other intermediary organisations to use the platform.

Component 4: Expand UNIDO's network of SPXs in Africa and link SPXs to the platform so that they can benefit from its supplier benchmarking and upgrading functionalities.

Who will benefit?

As well as IPAs and other intermediary organisations, the platform will benefit a wide range of stakeholders (see Figure 1).

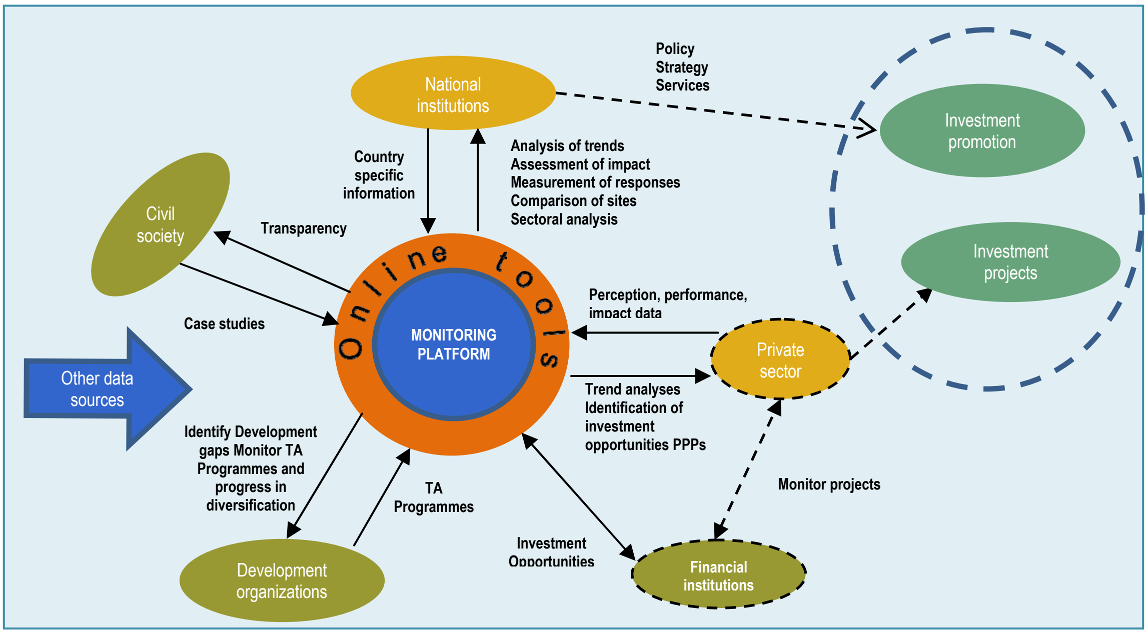

Figure 1: The network of stakeholder groups using the Investment Monitoring Platform

Regional Economic Communities (RECs), such as the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), the East African Community (EAC), the Common Market of Eastern and Southern Africa (COMESA) and the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC), will be able to draw on the platform in their efforts to:

- Identify new business opportunities and growth areas in the region;
- Support investors who have a strong regional focus—an emerging group of firms identified in the 2005 UNIDO Africa Investor Survey;
- Analyze evidence of cross border barriers to trade and harmonize regional trade and investment regulations.

Private investors, both domestic and foreign, will find that:

- The increased transparency that the platform brings will reduce their risk premiums;
- The greatly improved availability of enterprise-level data on growth areas and business opportunities will allow them to re-assess their investment strategies;
- The information on potential business partners will encourage various forms of collaboration between investors, for example through the identification of spatial clusters of foreign and domestic firms;
- The integration of UNIDO's supplier benchmarking database, to be generated in the SPX programmes, will allow the deepening of local supply chains and the strengthening of linkages with financial institutions;
- Public-private sector dialogue will be stimulated and this will trigger reforms and improve the investment climate.

Civil society: Political parties, the media, private sector associations, labour organisations, research institutions and universities, and environmental pressure groups will be able to monitor and assess the impact of different types of investment and investor actions. This should substantially transform the quality of debate within civil society about the contribution of the private sector to social and economic development.

International development partners will be able to use the platform's indicators to identify development gaps, such as capacity building needs and market failures, and design technical assistance programmes to bridge these. The dynamic nature of the platform will then allow them to continuously track enterprises over time and assess the effects of their technical assistance programmes and follow-up actions.

Component 1: Investor surveys

In this first component, structures will be set up and personnel recruited to implement, monitor and sustain the programme; sensitisation campaigns will be carried out to bring it to the attention of potential stakeholders; and two major surveys of domestic and foreign investors will be conducted to provide data for the Investment Monitoring Platform.

The implementation and monitoring structures will consist of:

- At continental level, a Programme Steering Committee (PSC) that will bring the major stakeholders (the AU, NEPAD and Regional Economic Communities) together to coordinate and monitor the overall programme and address issues of investment promotion that require solutions beyond the national level.
- A National Steering Committee (NSC) in each country, composed of government ministries, Apex institutions and private sector representatives, to oversee the implementation of the programme at country level;
- An Implementation Committee (IC) in each country, formed from the main users and beneficiaries of the platform—the investment promotion agencies (IPAs), the National Statistics Office (NSO) and the chambers of commerce—which will have the main responsibility for implementing the programme;
- Country team leaders (CTLs), who will coordinate all country-level activities and oversee the execution of the first round of domestic and foreign investor surveys. Working with the IC, the CTLs will carry out country sensitization campaigns to create a sense of local ownership of the programme and secure the highest-level of political support. These campaigns will be carefully targeted to ensure that large segments of the private sector are aware of the objectives of the surveys and the incentives for their participation. The CTLs will mobilise national champions from within the private sector who can spearhead the process. Upon completion of the survey, a key CTL function will be to facilitate the smooth flow of policy proposals from members of the Implementation Committee to political decision makers in the NSC.

The two major surveys will be implemented simultaneously:

- A robust survey of foreign investors in selected countries, based on strategic sampling and established survey methodologies of AfrIPANet, will be carried out by UNIDO.
- A survey of domestic companies will be carried out by member institutions of the IC.

The foreign investor survey will draw on a business directory of foreign firms, sourced in NSO data and compiled under the supervision of the CTL. The survey will be continued bi-annually to keep the FDI dataset updated and to generate time series data that can capture trends. It will use a questionnaire design that capitalises on the structures and analytical categories of previous UNIDO Foreign Investor Surveys. UNIDO, in consultation with a team of eminent scholars, will expand the questionnaire to capture various spill-over effects of FDI (e.g., backward and forward linkages, the innovative potential of FDI, technology transfer, dissemination of product and process standards, etc.).

On completion of the foreign investor survey, a survey report will be published to stimulate further interest and research in investment opportunities in Africa. This report will compile indicators based on investors' current operating and performance figures and their forecasts of expected investment flows; expected employment growth for countries and sub-sectors; anticipated skills gaps; expected capacity utilization rates; expected energy and water usage in selected sub-sectors; and investor assessments of the performance of intermediary organizations. Further reports will focus on various issues to be determined at the time of each survey.

The dataset of domestic investors will also be updated in further regular surveys. To ensure the quality of this data and the sustainability of the process, UNIDO will:

- Organize training workshops for the members of the IC on how best to establish and maintain a business directory, conduct sampling and face-to-face interviews, compile data and support the data collection process;
- Allocate project resources and recruit national consultants to support the members of the IC in collecting data.

With this early support, the ICs will be much better able to conduct subsequent surveys with less assistance from UNIDO.

Component 2: Development of the Investment Monitoring Platform

The Investment Monitoring Platform will give all relevant investment promotion stakeholders in sub-Saharan Africa access to the investor data of Component 1. UNIDO will act as custodian of the platform, using its own resources, and will ensure that the central database is fully exploited while the confidentiality of individual survey respondents is protected. Each principal institutional user will be assigned responsibility for maintaining part of the country level information and statistical data held on the platform. Different users will have different levels of access to the database.

The Microsoft Corporation will design and construct the platform (system architecture, software development, etc.) at its own cost, through a partnership agreement with UNIDO. Microsoft recognizes the considerable benefits that this programme will bring to sub-Saharan Africa, and sees it as bringing a unique database to the public domain. A particularly valuable technological feature is that the different stakeholders can co-develop the platform, constantly expanding and enriching its content. The involvement of UNIDO and Microsoft will guarantee that this technology is kept cutting edge.

The platform design has several key features:

- Access to the platform is free of charge;
- No user registration is necessary for non-interactive reporting based on the survey database;
- Users need to be registered in order to conduct interactive enquiries and import/export data—a registered user also has the right to manage its own profile;
- Companies can benchmark themselves against a similar group of companies in the database—this creates an incentive for the voluntary regeneration of data;
- External databases can be easily integrated and customized with the survey data.

Component 3: Capacity building of national and regional institutions

To fully exploit the considerable potential of the Investment Monitoring Platform, IPAs and other institutions will need to acquire a range of skills and capabilities. This component will build this capacity, primarily in IPAs but also in ministries, sectoral agencies, trade organizations, regional economic communities, and private sector organizations. Three functions will be targeted: (a) carrying out research, (b) designing investment promotion strategies, and (c) delivering services to investors, in particular aftercare services (see Figure 2).

a.) The enhancement of their research capacity will enable IPAs to conduct further surveys, analyse and interpret survey information, and generate customized reports that can become an input to investment promotion strategies and policy proposals. IPAs will be able to:

- Identify specific groups of investors (see text box no. 2) and analyze their growth, their value generation and other impact variables;
- Measure investor response to various interventions and assess the value of these interventions; for example, they will be able to measure how different kinds of investors react to specific incentives, and the overall impact that incentives have on the economy, and then make a balanced assessment of their contribution to investment promotion.
- Sustain and enrich the information on the platform by constantly updating and expanding the list of registered companies and recording and highlighting the actions of investors.

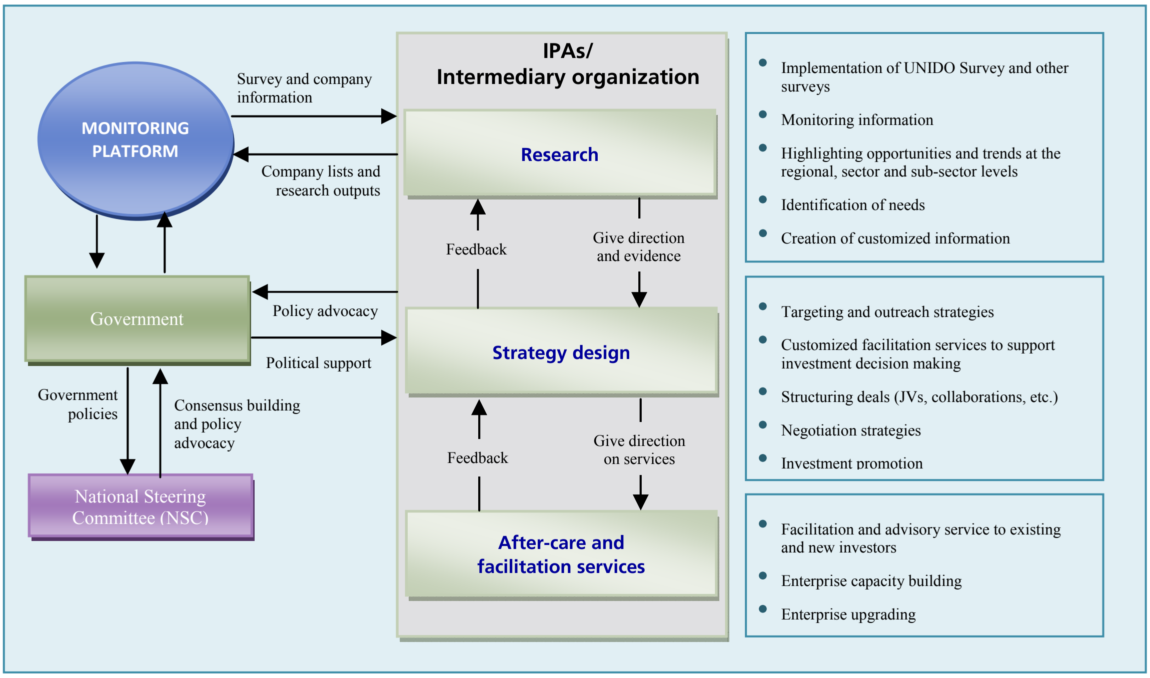

Figure 2: Capacity building for IPAs and intermediary organizations

b.) In addition to their ability to conduct research, IPAs will require further skills to design effective investment promotion strategies and prepare policy proposals. They will receive training in using the evidence generated from the Investment Monitoring Platform to:

- Formulate short, medium and long-term strategies for targeting investor groups and supporting them throughout the investment cycle;
- Adapt their services to the characteristics of investors and their particular impact on the local economy;
- Prepare evidence-based proposals for investment environment reform that can be presented to the National Steering Committee. As they become skilled in using the empirical evidence on the Investment Monitoring Platform to demonstrate the benefits of foreign and domestic private investment and assess the responses of investors to policy adjustments, IPAs will be better able to secure broader political support for whatever reforms are needed. The presence of government ministers in the National Steering Committee will make this easier to achieve.

c.) Capacity-building in aftercare services will enable IPAs to move from their present reactive, unstructured approach to one that is pro-active and sustainable, where they draw on their research on the platform to customise and deliver prioritized aftercare services. Several initiatives will now become possible:

- IPAs will be able to respond to requests for support from companies who have used the survey information on the platform to identify their specific needs.
- They will be able to draw on the platform to disseminate successful case studies and testimonies within the business community, thereby creating greater customer appreciation of what they and other intermediary organizations can provide.
- IPA performance measures, derived from company feedback, can be publicly tracked, providing an impetus for ongoing service improvements and process streamlining. This will encourage a shift away from measuring their performance in terms of the volume of investment to assessing it on the impact of the investment on the country's economic development.

Component 4: UNIDO's Network of Subcontracting and Partnership Exchanges (SPXs) in Africa expanded and integrated into the Investment Monitoring Platform

The Investment Monitoring Platform will greatly enhance the new Subcontracting and Partnership Exchange (SPX) approach, described earlier in Box 1. With the platform's supplier benchmarking methodology, SPXs will be able to conduct a gap analysis of supplier capacities in relation to buyer requirements and then to assist them to formulate the investment proposals, mobilize the financing and identify the technology partners needed to upgrade to meet these buyer requirements (see Figure 3).

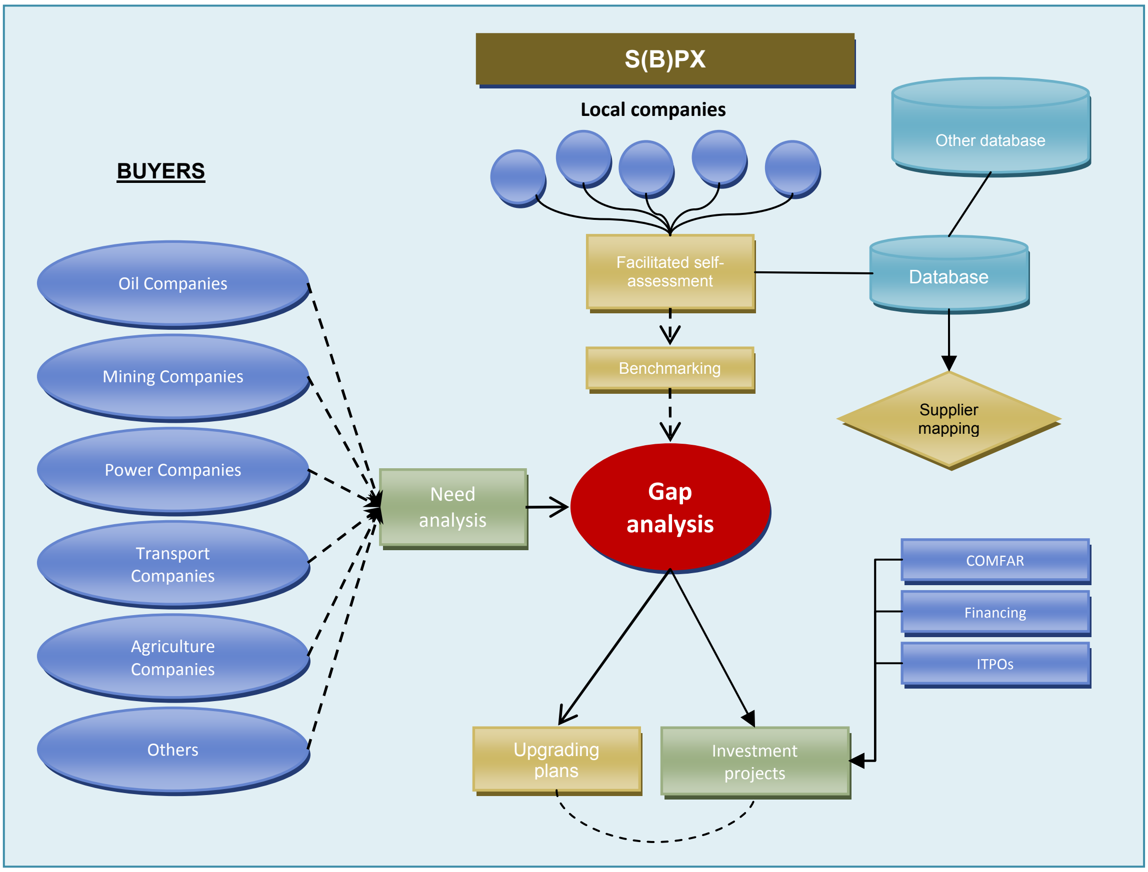

Figure 3: The role of UNIDO's subcontracting and partnership exchange programme (SPX) in supplier benchmarking and upgrading

To begin with, SPXs will draw on the platform's databases to assist large trans-national corporations, large domestic firms and public procurement bodies assess which of their procurement needs can be sourced locally. They can then form strategic partnerships with these organisations and leverage them as potential buyers for local goods and services. The local procurement requirements of these buyers will determine further SPX interventions with suppliers: in other words, the new SPX approach will respond to specific buyer needs rather than promote supplier goods in general and will thereby provide suppliers with direct linkages to international value chains.

The platform will complement existing standards (ISO 9000 and others) with a set of key indicators which will enable a series of gap analyses of the quality of suppliers' processes and business practices at different points in time. Each firm will thus be able to follow its own individual progress. These benchmarking indicators will capture the following:

- Financial performance (cost management, productivity, financial stability);
- Customer performance (product quality, service quality, customer responsiveness);
- Internal processes (operations management, supply chain management, information management, corporate governance);

- Learning and growth (leadership, human capital management, safety and health and environmental management).

The depth and extent of the firm-level benchmarking data will enable SPXs to make supplier development interventions at a number of levels: firm, industry, national and regional. Once the supply gaps are identified, the UNIDO-COMFAR software on the Investment Monitoring Platform will assist local companies develop their own business plans and pre-feasibility studies to address the gaps.

Further benefits can then be expected. The commitment of buyers to source from suppliers for whom the SPX develops business plans will greatly encourage potential investors or finance institutions become involved. Investment promotion bodies, both inside and outside the SPX host country, will be activated to engage the private sector to participate and to raise awareness of new forms of equity investments, e.g. through local equity funds. UNIDO Investment and Technology Promotion Offices (ITPOs), in particular, will take a leading role in mobilizing foreign strategic partnerships. National IPAs will be integrated into the process to give the institutional assistance that is necessary for the swift implementation of supplier upgrading and expansion plans.

Overall, suppliers will benefit from greater exposure to large private enterprises and public procurement bodies, with positive effects on their output and investment volumes. Large contractors and buyers will benefit from increased levels of local content and reduced procurement costs while at the same time being accepted as important drivers of economic growth. The SPX host institutions, too, will benefit since their staff will become more capable of using the Investment Monitoring Platform to devise effective strategies for local supply chain development.