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The University of Manchester
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Business School

Comparative Analysis of Investment Conditions in African Countries

Final Report

UNIDO Project XP/GLO/05/016

Contract No 2005/147

Manchester Business School   - 1 -   3/15/2006
The University of Manchester   UNIDO Project Interim Report
Manchester M15 6PB

1   Report Objectives

1.1   Aims and Vision

1.1.1   UNIDO Vision and Aims

The project is designed to fit in with the overall UNIDO vision and goals.

The UNIDO vision is, "To improve the living conditions of people and promote global prosperity through offering tailor-made solutions for the sustainable industrial development of developing countries and countries with economies in transition."

The project is designed as part of one of UN's stated Millennium Development Goals, to develop a global partnership for development. UNIDO believes that the way to achieve development in regions such as Africa, where GDPs are falling, is through Foreign Direct investment (FDI) not simply through aid. Development from the UNIDO perspective should be viewed in the context of the 3 goals of improving economic prosperity, increasing employment and benefiting the environment of developing nations.

1.1.2   The Background to the Project Aims

To support the organisation's vision and aims the overall development objective of the UNIDO is the mobilisation of greater private sector interest in working with developing countries and increasing the international investment, technology and trade flows to and from developing countries and countries with economies in transition.

To achieve this objective it is essential to link up businesses in the private sector in the developed world with investment opportunities in developing countries. Currently the situation is that there is a market failure for companies in developed countries due to the lack of reliable information on the investment climate in many developing countries.

The market failure is defined as the paucity of information that prevents SMEs looking at less developed countries for investment in industrial sectors. This is due to:

- The lack of awareness and understanding of opportunities that exist in countries or regions.
- The negative perceptions that companies in developed countries have of certain countries and regions. Also, the lack of differentiation that companies make between countries within regions.
- The lack of effective support in target nations to assist in supporting investment.

The tendency is for investing companies to follow the crowd rather than making independent informed decisions. This leads to investment opportunities being overlooked. The project will enable companies to start looking at a broader range of countries and stimulate interest in some of the less well developed countries of the world.

The project is designed to provide an analytical tool for the investment and technology promotion activities of UNIDO and its Investment and Technology Promotion Network (ITPN) to bridge the information gap and ultimately mobilize more capital and technology to developing nations. The tool must also have the capacity to be updated on a yearly basis. Ultimately it will be aimed at companies in a range of developed countries including the UK, France, Italy and Japan. The possibilities ultimately may extend a great deal further.

The project will provide an analytical basis for UNIDO investment and technology activities, specifically of the ITPOs. It will also provide a basis for the country level activities of UNIDO in improving the competitive position of developing nations for attracting foreign investment.

Also, the project will contribute to the private sector in developing countries by assisting them in accessing capital, technology and international markets. It will also promote international partnerships between the private sector in developed and developing countries.

1.1.3 Specific Project Aims

The aims of the project are twofold:

- To provide cost comparisons between selected countries featuring background information on each selected sector. This enables companies to understand the size and potential developments for their sector within each developing country analysed
- To provide a "business matrix" which will compare overheads, incentives, logistics, lead times, utilities and other factors across all the featured countries, and consequently to provide access to invaluable information to help the company choose which country is right for a new venture.

All aims of the project have been met.

2 Information Sourcing

To improve UCAT and to develop UNIDOs work further in the field of private sector engagement for investment and outsourcing, there needs to be a systematic approach to getting access to information and analysis. This does not only apply to external organizations such as UNDP and UNCTAD but also UNIDOs network of offices overseas and specifically the counter parts in developing countries where UNIDO is delivering it's Integrated Programmes for example the Investment Promotion institutions.

3 The Frameworks

Private sector interviews were undertaken to understand and verify the importance of criteria that the matrix would be populated with. This empirical evidence was then used to adapt STEEPLE analysis and Porter's Value Chain to develop criteria that fully met the private sectors needs. Initial tests with the private sector have been positive however we would suggest that it is important to continue dialogue with the private sector to develop UCAT further and to ensure that the tool continues to "delight" the private sector thereby assisting UNIDO in getting greater private sector buy-in to its programmes.

3.1 Practical Utilisation

As covered in the interim report there needs to be a wider discussion regarding the coverage that the STEEPLE and value chain models provide for the data required in the project. This will centre on the difficulties in describing the investment conditions of a country using a model designed to describe specific companies. There will also need to consideration of where the models have gaps in specific sectors.

Countries should be viewed as to how their overall environment impacts on the value chain of a potential business in a specific sector. The company should be viewing this data in an effort to determine if they can achieve competitive advantage in this environment. There may be a requirement to have differences in the criteria for different sectors.

Work will need to be done to specifically include the ideas of the Global Value Chain, the Global Supply Chain and the Value System to inform the data manipulation and thereby develop UCAT further.

In the interim report we mentioned that it would be useful to incorporate supply chain ideas into the tool itself. We are pleased to report that UCAT has been designed to enable the inclusion of 2 extra main criteria sections; it would be worth exploring how one of these additional options could incorporate the Global Supply Chain/Value Chain as criteria for analysis in their own right.

3.2 Countries analysed

In addition to the agreed number of countries there is an additional one country that was not part of the original agreement i.e. Bahrain which has been included in the tool. Please see attachment 1 for a full list.

3.3 Criteria List

The criteria developed from the STEEPLE and Value Chain analysis is listed in attachment 2.

3.4 Data Comparison and Methodology

As a result of reviewing existing models eg. Porter's value chain and STEEPLE analysis and individual company interviews, 80 criteria were selected that gives the private sector the indicators that they need to consider when analysing countries for investment/JV or subcontracting.

Over 80% of the criteria are based on objective measurable data i.e. cost to Rotterdam, time to Rotterdam, Time to start a business etc. Where we have found data eg World Bank indicators on how many days does it take to start a business we have converted their days estimate into our 1-5 scale.

The remaining data is subjective. This is where we could not use empirical evidence or another organisations existing analysis to base the scoring on. In these circumstances eg protection for investors, the same individual collated, researched and analysed the data and made a subjective judgment for the score. This subjective score is backed up by the country report where there is a descriptive of the business climate and original sources provided to allow the company to make their own judgment. By using the same person for the analysis and data input for that specific criteria then we have ensured that the relative scores are sensible and meaningful to the private sector. Taking this subjective score and then providing the country reports to explain the business environment provides the private sector with a data set that is valuable and adds to the overall functionality of the tool.

It is also worth noting that less than 20% of the data is subjective, this means about 10-16 criteria out of the 80 are purely subjective, these subjective data points are spread over the 8 main criteria eg, logistics, operations etc. When the tool scores a country it is over a large number of data points (the 80 criteria) any negative effects of subjective data will therefore be insignificant.

3.5 Continued Maintenance Plan

Care should be taken to ensure that the future alteration of data is a straightforward process and key individuals are trained in how to carry this process out. Supplied within the CD are instructions to add countries and criteria to enable this process to be undertaken.

Attachment 2 – Countries Analysed

Russia	**Nigeria**
Estonia	**Senegal**
The Baltic States	**Malawi**
Lithuania	**Burkina Faso**
Czech Republic	**Tanzania**
Slovakia	**Mozambique**
Hungary	**Ghana**
Poland	**Bahrain**
Bulgaria	
Romania	
Turkey	
Morocco	
Egypt	
Jordan	
Ethiopia	
Kenya	
Uganda	
South Africa	
India	
China	
Brazil	
Ecuador	
Mexico	

Attachment 2 – STEEPLE Criteria

Criteria	Weighting	Sub Criteria
Logistics	15	Roads
		Railways
		Airports
		Harbours/Ports
		40m Container cost to Rotterdam ($)
		40m Container time to Rotterdam (days)
		Customs clearance procedures
Operations	30	Electricity: reliability
		Gas - Diesel and Petrol: reliability
		Water: reliability
		Power costs
		Environmental Regulations and Control
		Productivity
		Casting and Forging capacity
		Reliance on Hydro Energy
		Reliance on Solar Energy
		Waste Management Level
		Water Pipe Infrastructure
		Reliance on Renewable Energy
		Reliance on Coal Energy
		Reliance on Gas Energy
		Reliance on Nuclear Energy
		Reliance on Wind Energy
		Total Number of Waste Management Installations
		No of Water Treatment Installations
		Sewage Waste Disposal System Standards
		Water Pollution Level
		STARTING BUS
		CLOSING BUS
		Getting credit
		Enforcing contracts
		H&F workers
		Prot Investors
		Register Property
Trade and Industry	5	Sales Tax/VAT
Firm Infrastructure	5	Telecommunications
		Internet availability
		Availability of buildings/land for operations
		Rent Rate per sq m per month
HR	10	Training: universities - Graduates as % of population
		Literacy Rate
		Level of scientific education training
		Level of management education training
		Wages per hour
		Absenteeism
Procurement	5	Availability of Steel
		Availability of rubber/synthetics

Availability of plastic/fibreglass
Availability of glass
Availability of Specialist metals:
titanium/aluminium/etc.
Availability of Wood
Availability of Cotton
Availability of Wool
Availability of Synthetics
Overall Food Production Index

External Environment   10   Political stability
WTO membership
GDP per capita
GDP growth
Inflation
Corporate Tax
Interest rates (nominal)
Exchange rate
Stability of currency
Ease of FX repatriation
credit/funding availability
security of financial system
Intellectual Property/Patent protection
Crime/Personal Security
Incentives for local investments
Safeguard policies (anti dumping countervaling,
sudden surge of imports)
Environment budget total
Environmnent Protection Laws
Unemployment rate
Level of Aid Flows
CORRUPTION
HUMAN RIGHTS