

## **UNIDO Position Paper**

### **Promoting Investment in Developing Countries (with Special Reference to Africa): Challenges, Opportunities and Experiences**

*UNIDO Secretariat*

#### **Summary**

The last two decades have seen rapid economic transformations accompanied by an unprecedented pace of technological innovation, liberalization of trade and globalization of the world economy. Governments and enterprises of industrialized countries are investing massively in research and development (R&D) activities in order to bring out new processes, products and services continuously to overcome competitive pressures, and are generating ever-increasing wealth and sustaining growth.

However, apart from a few exceptions, developing countries have neither made available the financial resources nor the knowledge base to develop competitive technologies and achieve a share of the international trade to alleviate the poverty of their populations. This reality is even more striking for the countries in Africa and the least developed countries (LDCs).

International investment in general and foreign direct investment (FDI) in particular is perceived as indispensable for the growth of developing countries in view of its multiple impacts. It is expected to bring skills and know-how leading to improved efficiency in the use of resources and increased productivity. Through capital accumulation, FDI enhances growth by incorporating new inputs and technologies into production in the recipient country.

However, success in attracting FDI and its expected growth effects has eluded most developing countries. Competition between themselves has given way to “me too” incentives that have not been well calibrated. These countries have consequently become increasingly marginalized from global production networks. Government failures in terms of adequate policy frameworks and enabling environments have raised the risk premium on investments to prohibitive levels.

While economic orthodoxy provides the ingredients for sound growth policies, including the attraction of FDI, extensive research on the development trajectory of many countries has shown that the success stories are mostly derived from context-specific solutions, whether orthodox or non-orthodox, tailored to particular circumstances of the concerned country. Developing countries have to be able to frame FDI promotion into specific growth policies that ensure a positive balance between benefits and costs. It has also been observed that igniting growth and sustaining it in the medium-long term are very different in terms of institutional capacity requirements (Rodrik 2003).

These realities dispel the straightforward use of recipes based on conventional economics or the simple transplantation of successful experiences from one country into another. They highlight the role that an organization like UNIDO is called upon to fulfill. Assisting a country in charting a path for sustainable development and growth and in attracting FDI as a catalyst for that process requires a wealth of diversified operational experience and a command of related technical disciplines.

This paper is developed in three parts. The first characterizes FDI flows from industrialized countries to developing countries within the broader framework of international investment. The second elaborates the drivers and determinants of FDI and its effects on productivity and growth. The third part describes the framework of a UNIDO strategy to assist developing countries in capturing FDI and using it as an instrument for sustainable growth.

## Characterization of FDI flows

### *International investment and FDI*

According to conventional wisdom capital will flow from where it is abundant and facing diminishing returns to where it is less plentiful and thus yields higher returns. This unfettered flow of capital will make the world better off. The conclusion, in terms of orthodox policy advice, has been to completely liberalize capital flows.

However, unlike liberalized trade flows, where the direct benefits to growth are clear, the benefits of liberalized capital flows are less straightforward. There is little empirical study that attempts to estimate developing countries' gains from capital flows. There is no consensus because of opposing views about what is the determining feature of openness to capital – growth through increased investment versus increased vulnerability to economic turbulence leading to slow growth. The Latin American debt crises of the 1980s, the Mexican and Asian crises of the 1990s, and many other banking and currency crises have caused recessions and years of lost growth. Therefore, unlike trade in goods and services where the benefits to participants can be estimated and total welfare increases, capital flows have potentially severe downsides that make it less predictable.

According to one review of the literature (Dobson & Hufbauer 2001), the gains of developing countries from access to global capital markets may be approximately the same as that from access to trade in goods and services. The important distinction is made, however, that different kinds of capital (loans, portfolio investments and FDI) may have different effects, and that financial integration requires that certain conditions be met before its benefits can be reaped.

In recent years, there has been a significant shift in the composition of private capital flows to developing countries characterized by increased and accelerated inflows of FDI in relation to the other forms. Flows of short-term debt amounted to US\$ 30 billion in 1980, shrank to US\$ 15 billion in 1990 and turned negative from 1998 onwards. Over the same period, FDI has grown from US\$ 5 billion in 1980 to US\$ 24 billion in 1990 and US\$ 160 billion in 2000.<sup>1</sup>

On the one hand, this trend reflects the experiences of past financial crises and the corresponding concerns about the volatility of financial markets – FDI is comparatively safe and not so easy to withdraw in difficult times. But, on the other hand, the growing interest of developing countries in attracting FDI is also a recognition of its multiple impacts and spill-over effects. In the short run, FDI requires only basic skills at the receiving end and brings in capital, management skills, market links and technology. There is little dispute of the fact that China's consistently high growth rates in recent years have a strong link to its success in attracting FDI.

For many developing countries, FDI is the most direct way to start industrialization and enter international markets. However, if the host country does not provide minimum prerequisites that inspire interest and confidence to the business communities, foreign investors may simply not come.

### *Patterns of FDI flows*

Although international investment flows have been increasing steadily over time, they are asymmetrically distributed between the industrialized and developing countries, in favour of the former, and among developing countries themselves. The main feature of FDI flows in developing countries is its high concentration in only a few countries. As an illustration, statistics on regional FDI inflows for the period 1980-2001 compiled by UNIDO (UNIDO 2003 a) reveal the following findings:

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1 "A Survey of Global Finance", *The Economist*, 3 May 2003.

- a) Industrialized countries captured most of the international FDI flows over the two decades, with a share of 89 per cent in 1980 and 87 per cent in 2001;
- b) Africa, West Asia and the countries of Europe that are in the category of developing countries, have lost out heavily to the countries of Southeast Asia and Latin America;
- c) Within Asia, the main beneficiaries of cumulative FDI inflows over the two decades have been the countries of South and East Asia, in particular China, Hong Kong SAR, Singapore and Malaysia;
- d) Latin America performed relatively weakly in attracting FDI in the latter part of the 1980s but its performance recorded a visible improvement in the 1990s;
- e) In 2000, the African countries as a whole received a mere 0.26 per cent of total FDI inflows, and for the sub-Saharan countries the share became negligible at 0.07 per cent.

Having in mind the mandate and responsibilities of UNIDO, the above picture calls for further analysis on what determines the motivations and options of transnational corporations (TNCs) when targeting developing countries for their operations. By the same token, it will be useful to analyze the relevant aspects of market imperfections and government failures that policy makers have to address in order to attract investors, provide the necessary public goods, and articulate the instruments that spur and sustain growth.

#### *Characterization of FDI*

Although the entrepreneurial dynamics brought about by the new economy has induced many innovative small- and medium-sized enterprises (SMEs) to enter into international business, the bulk of FDI flows has traditionally been and still is associated with TNC activities. FDI can take different forms, focus on diverse sectors and be driven by a number of investors' motivations that change over time. Competitive pressures make enterprises readjust, redefine and relocate their operations and, accordingly, there will be different impacts in the host country's development.

Different terms have been used in literature to characterize FDI, and the terminology sometimes depends on the analytical perspective. For the purpose of illustration, the following broad characterization can be used (Usata 1997; Te Velde 2001):

- a) *Market seeking FDI* – driven by location factors and the relevant dynamics and size of the market;
- b) *Natural-resource seeking FDI* – driven by the availability of natural resources;
- c) *Efficiency-seeking FDI* – driven by the search for efficiency through cost-saving and maintenance of competitiveness.

Other categories or sub-categories can be added to the above, such as: Labour-intensive FDI; capital-intensive FDI; FDI with high local manufacturing value-added; "Zone" FDI; service sector FDI; infrastructure FDI; mergers and acquisitions; joint ventures; wholly owned subsidiaries, etc. (Aron 1999)

FDI is widely accepted as an important element for the growth of developing countries. Without FDI inflows many developing countries would not expect to achieve basic development targets such as increasing growth through productivity and alleviating poverty. That is why developing countries compete strongly among themselves to catch the attention of TNCs as suitable locations for their FDI projects.

However, there are considerable challenges that developing countries and their policy makers have to face with regard to FDI promotion. Different forms of FDI have different impacts in such areas as the labour market (and specific segments of the labour market), productivity, trade, domestic investment, education, technological innovation, and so on.

For example, *labour-intensive FDI* is a generator of employment, which is important for poverty reduction but often requires unskilled workers and has few other spillover effects such as the upgrading of the country's technological level. Another example frequently cited is the potential of certain forms of FDI to "crowd out" domestic enterprise and its investment.

While developing countries in general need and compete for FDI to reap its perceived benefits, FDI has costs and effects that have to be subject to scrutiny by host governments. From the investors' perspective, there are expectations of profit that have to be balanced against the perceived risk, which means that the host country has to provide a climate of confidence for business.

## **Effects and determinants of FDI**

### *FDI and growth*

In a world of persistent disparities in the distribution of wealth, a major concern and task for the political leadership in poorer countries is to promote growth to alleviate poverty and create the conditions to achieve the Millennium Development Goals (MDGs).

UNIDO's position regarding the role of industry in the development agenda has been clearly set forth in the Organization's corporate strategy (UNIDO 2003 b).

- There are different rates of growth and a pattern of divergence between the industrialized and developing countries as well as among the developing countries themselves.
- Modern economic growth in industrialized countries, and also in developing countries, has predominantly been related to productivity increases and technological change;
- A comparison of relevant data analyzed by UNIDO in respect of 32 LDCs and 22 industrial countries shows that there is a big gap between both groups of countries in terms of the levels of technology and the related practices;
- Only a relatively small number of countries in the industrialized world has the resources to invest massively in R&D activities and in technological innovation as a way of achieving and sustaining competitive advantage and economic growth;
- Concerning developing countries, the path for growth has to involve the acquisition of technologies from abroad and their assimilation and diffusion, accompanied by a process of learning and leveraging;
- The growth success of East Asian countries is rooted in technology transfer and diffusion, which links with productivity enhancement and the development of export capabilities;
- In some cases (e.g. Republic of Korea and Taiwan, Province of China) the process started with technology acquired through licensing or sub-contracting arrangements; in other cases (e.g. China, Singapore and Malaysia) the way of accessing technology was through FDI;
- The lessons learned in both cases are that success was due not only to appropriate policies to capture foreign technology and investment but also to existing capacities and externalities that enable learning, entrepreneurship and innovation.

Clearly, FDI as a vehicle for technological progress can make a decisive contribution towards the sustained growth of developing countries and for their integration into the world economy. Despite the role of technology transfer through commercial channels, it is FDI that has mostly been resorted to as a response to the developing countries' needs.

For African countries and LDCs, the promotion of FDI inflows is a key element in response to their needs with regard to technological development and economic growth. Other forms of technology acquisition through commercial channels would require at the outset a significant technology base and absorptive capacity, which is insufficient or simply does not exist in some countries. Many forms of FDI only require basic skills in the host country and yet they bring capital, technology, management techniques and market links.

## *Effects and impacts of FDI*

### Estimating the quantitative impact

The benefits of FDI are argued in terms of its quantitative effects on growth. Of course, these depend on the particular conditions of the recipient country and its ability to direct FDI properly and capture all positive externalities that are associated to it.

A “Survey of Global Finance” published in *The Economist* on 3 May 2003 presents a literature review on the gains of developing countries from trade and from capital market integration including FDI. According to the review, the GDP of developing countries had recorded a gain of about US\$ 350 billion a year (roughly 5 per cent) by 2000 as a result of their access to international markets in goods and services.

Concerning the overall effects of financial integration, the results of the survey are not straightforward and the picture remains unclear. While some authors estimate a meaningful effect on the growth of developing countries, other authors do not find any benefit at all. Certainly, the big financial crises in various parts of the world during the 1990s and the losses they have induced in the host economies are the backdrop of these mixed perceptions.

On the positive correlation between FDI inflows and developing countries’ growth, there seems to be no dispute. This explains the shift in recent years in the composition of capital flows to the emerging market economies, with a clear preference for FDI over portfolio flows, as highlighted earlier. Research results presented in *The Economist* survey suggest that a rise of one percentage point in the ratio of the stock of FDI to GDP will raise GDP by 0.4 per cent. The report thus states that: “In the decade to 2000, the ratio of FDI to GDP in the developing countries went up from 7 per cent to 21 per cent. That rise of 14 percentage points implies an improvement in GDP of 5.6 per cent.” This is indeed very meaningful; and the more so when we think of FDI effects on trade, which itself is a powerful driver of growth.

### FDI-trade correlation

The positive correlation between FDI and trade seems obvious. As a matter of fact, in most cases the TNC strategies with regard to FDI location are based on trade-related motivations; for example, taking advantage of local endowments in natural resources, raw materials, low-cost labour or sub-contracting capabilities in order to improve the competitiveness of their manufacturing activities and successfully export to global markets. Even in cases where FDI is oriented to the host country’s market, this results in an import substituting effect with a corresponding positive effect in the country’s trade balance.

This correlation between FDI and trade is more than just the increased trade that would result from an absolute increase in the level of investment. FDI has an effect of linking national economies more into global trade streams. OECD research suggests that as countries progress towards industrialized-nation status, increased inward FDI to the host country reflects and contributes to further integration of the economy on a global scale (OECD 2002). Enhanced foreign trade flows, through greater openness to trade and investment, intensify exports as well as imports. Inward investment, as an export increasing strategy, can be positive if it allows the host country to take advantage of its resource endowments and/or geographical location, which is the case for transition economies as the research highlights (OECD 2002, p. 92). Export-processing zones have also played a role in linking host-economies into global trade streams. At the same time, however, the research suggests that it is important to keep in mind that inward investment cannot be used as an import substitution strategy for lesser-developed countries (OECD 2002, pp. 11-12 & 92).

### Technology spillover effects and knowledge accumulation

The most significant spillover effect of FDI on productivity gains is through the transfer and diffusion of technology. The evidence regarding this aspect of FDI suggests that the impact of technology introduced by a TNC is highest if it is absorbable by others and diffused in the economy. This analysis refers mostly to a study of TNCs and to technology imparted and diffused through backward linkages to local suppliers of the TNC (OECD 2002, Ch. V).

The simplest linkages involve being engaged in contractual supply of goods and services. TNCs moving into a new market usually need local firms as suppliers of maintenance services or as suppliers of materials and components. These can be upgraded to encompass more demanding tasks, involving more added value, as the incumbent builds longer-term relations, which means a learning effect in the local firms and a process of knowledge accumulation with a consequent leveraging of the technological capabilities of the host country.

As competence grows, so does the depth of inputs induced by the TNCs, creating or leading to a virtuous circle that is making some developing countries emerge as serious players in world markets. A trend of international investment in recent years has been the relocation of service industries to some developing countries, namely to countries in the Indian Ocean Rim. Even more recently, TNCs have begun to outsource innovation and to set up subsidiaries for R&D operations in developing countries, for instance in a number of East Asian countries.

However, the technology transfer element of FDI is not automatic and explicit efforts to enhance technology transfer in the FDI process are required if the desired effects are to be achieved. Because technological gaps exist between foreign investors of developed countries and domestic firms of developing countries, proper mechanisms need to be put into place, both from a structural level and business level, in order to realize such gains.

There are two more aspects that need to be taken into consideration. The first is that in order for technology transfers to generate some externalities that would assist in structural reforms, the technologies need not only to be relevant to the domestic firm that receives them, but even more importantly to the host-country business sector as a whole, as illustrated in the OECD study (OECD 2002). This would generate more country benefits. If, on the other hand, the technological capabilities of the host country are too low, it might be impossible actually to absorb the benefits of technology transfer from the TNC in the first place. Therefore, as far as LDCs are concerned, the simple promotion of FDI inflows, important as it is, may not be enough to generate sustainable growth in the host economies. It is also necessary to assist the host countries in other relevant and correlated areas, namely in upgrading their overall technological capabilities.

### FDI and poverty alleviation

As argued above, FDI is a determinant of growth and has spillover effects on various aspects of human development such as job creation, education, gender equality, improved health, etc. Observations regarding the correlation between the stock of FDI as a percentage of GDP and poverty (measured as the percentage of population living on below US\$ 1 per day) indicate that there is a direct non-linear relationship. As FDI stock increases from zero to 15 per cent there is a very large drop in the proportion of population living below the US\$1 level, following which there is a relative levelling off as the proportion of FDI increases (OECD 2002, p. 169). This cursory observation supports the notion that, looking purely at FDI stock as a portion of GDP, the effect on poverty reduction is most apparent at the lower end of the spectrum. It has also been found in one major study conducted in 1997 based on data related to 26 developing countries in different periods that “an increase in the rate of GDP growth produces an equivalent increase in the income growth rate of the poorest 40 per cent of the population – an income elasticity of one” (Aron 1999).

The above observations seem to imply that inward FDI to LDCs, even as a small percentage of GDP, could have a significant impact on poverty alleviation.

### *Determinants of FDI*

#### FDI and new global production patterns

The combined effects of a rapid pace of innovation and specialization on the one hand and the adoption of liberalization policies by developing countries on the other, have resulted in new ways of organizing manufacturing activities by TNCs. This has had several consequences on the ways of doing business and on the management of TNCs. This in turn has influenced the motivations and patterns of FDI.

TNCs themselves are subject to high competitive pressures as well as increasing R&D and production costs. As a result they tend to split up the global value chains and their locations across borders for manufacturing goods in different stages and at different locations, and dynamically change location whenever convenient. Even R&D, one of the least mobile functions, is increasingly being transferred overseas. According to the same underlying rationale, TNCs show a growing tendency to outsource functions and inputs to capable suppliers. These divisions, taking advantage of small differences in cost, logistics, skills and efficiency, are made visible by new communication and management techniques.

The fundamental features of modern industrial organization need to be appraised and understood by policy-makers in developing countries, if they are to promote and capture successfully the FDI inflows they need.

### **The UNIDO response**

#### *Review of issues*

In their attempts to promote FDI inflows, developing countries face considerable challenges which result from a multitude of factors that were touched upon throughout the preceding sections.

This complex equation requires well articulated policy solutions not only to attract FDI but also to build-up the conditions that are necessary to capture its positive externalities and achieve sustainable growth.

#### *Importance of macro-environmental structures and the need for context-specific solutions*

Observation and experience leads to the conclusion that getting the macro-environment right and liberalizing capital flows may not necessarily lead to the inflow of FDI, and that if the right interventions are not applied, the anticipated impact of FDI on productivity, growth and poverty reduction may not be fully realized.

Government failures, resulting in over-regulation, weak institutions and unpredictable policy, hinder entrepreneurial initiative and impact negatively on the flows and effects of FDI. Improving the investment climate by reducing government-imposed imperfections is always the first advice given to developing countries for improving the inflow of FDI. This is a necessary but not always sufficient condition for initiating rapid growth through investment. Countries may also need to look at market failures that require positive action on the part of government to induce investment in modern industrial sectors. This requires designing appropriate interventions of incentives and discipline (reward linked to performance) to overcome barriers imposed by market factors. To stimulate investments under conditions of stagnation, governments need to intervene and encourage markets. The incentives need to be carefully crafted to promote innovation-oriented learning, encourage the

entry, under competitive conditions, of pioneer investors into the growth sectors (and induce others to follow), and promote the forms of cooperation between domestic and foreign investors that stimulates rapid dissemination of technology (Rodrik 2003).

The evidence that successes cannot simply be transplanted from one country into another implies that capacities for high quality policy analysis are required on the part of developing country investment promotion agencies (IPAs). The multitude and complexity of issues that have to be articulated in order to put in place the policies and conditions to attract FDI and generate growth require considerable local knowledge and technical capabilities, as well as sufficient resources to experiment with new approaches.

#### UNIDO response:

UNIDO's approach to investment promotion is geared towards supporting developing countries, especially LDCs and less developed regions of non-LDCs, in developing the right combination of interventions to overcome the particular types of failures hindering investment growth as well as growth through investment.

UNIDO complements the work of other organizations in the field of investment promotion through its concentration on productivity gains in the agro-processing industries and focus on initiating rapid growth in low-income countries through investment promotion into industry. In this respect the uniqueness of UNIDO's approach is in combining the investment promotion function with industrial development functions.

Most of the advice and assistance offered by multi- and bilateral agencies to developing countries in the field of investment promotion involves two key areas of intervention: The development of best-practice promotion skills, including organizational structures for national IPAs; and the improvement of the investment climate through across-the-board removal of administrative and legislative hurdles. The issues of IPA diagnostics, advice on policy and legal framework for FDI, and best-practice skills development are appropriately dealt with by several institutions. Most capacity building initiatives are to some extent based on the models and experiences of successful agencies that have been instrumental in completely transforming their national economies through FDI (e.g. Ireland), and comprise many of the skills and strategies that have proven useful in generating FDI.

Recognizing that methodologies and strategies that were successful in one setting may not be as effective in others, especially in LDC and lower income environments, UNIDO programmes try to expand the mandate and activity range of national IPAs to cover interventions that integrate industrial development, technology diffusion and domestic investment and FDI promotion.

Promotion of investment and technology in specific sub-sectors is conducted in close cooperation with other UNIDO services. In particular, it is combined with UNIDO's areas of specialization in technical assistance. These include rural energy, appraisal of investment projects in energy saving and carbon reducing technologies; investment strategies in textiles and garments, leather and leather products, and food processing; the identification, appraisal and promotion of environmentally sound technologies coordinated with the network of national cleaner production centres (NCPCs). Issues pertinent to sub-contracting and other forms of technology alliances are coordinated with the work of the technology group and the sub-contracting exchange (SPX) network.

#### *Expanding the functions of IPAs*

In many developing countries, especially LDCs, there are shortcomings of the institutional infrastructure needed to articulate, coordinate and execute the range of interventions for supporting and stimulating private sector actions and market forces. As a result, the actions of different institutions involved in different aspects of investment are discordant and frequently at cross-purposes.

One of the conditions that are crucial to an IPA's effectiveness in investment promotion is the accord and respect of other national institutions that impinge on the investment process. Those responsible for implementing the local conditions of investment that the IPA presents to international investors must adhere to those conditions. For example, if the IPA and the revenue authority are giving investors different pictures of the tax framework, the IPA loses its credibility and its ability to influence investor decisions (independently of the attractiveness of the tax regime). This places on them a "national coordination" responsibility that requires the IPA to convince these stakeholders to rally around a common strategy. Therefore, IPAs need support in formulating arguments linking FDI to the priorities, within the national development agenda, of other national institutions.

The second condition is the availability of a minimum amount of institutional capacity for supporting domestic industry to complement IPA efforts in investment promotion, especially for supporting enterprises in both interacting with FDI and in playing a role in the attraction of FDI. This implies developing close working relationships with industrial sector associations to intertwine technical assistance with investment related services. In this case, an IPA's role in mobilizing and channelling support (if not providing some of it directly) is just as crucial as employing best-practice promotion techniques vis-à-vis foreign investors.

UNIDO's strategy in investment promotion is to provide the tools, training and information as well as networking for developing these supplementary capabilities. This involves leveraging UNIDO's expertise in specific sub-sectors. It also involves utilizing the partnerships developed with many industry related stakeholders in a country through the integrated programmes.

One of the services provided within the framework of this strategy is empirical analysis to assist IPAs in articulating country specific approaches to FDI promotion and linking FDI to the development objectives of critical stakeholders.

Another service is practical support in bridging the institutional divide between the IPA and institutions of the domestic private sector; especially support institutions for specific industrial sub-sectors.

#### *Elements of the strategy and services*

##### 1. Platform to develop focused strategies to attract FDI into productivity enhancing activities

The limited resources available to IPAs make it difficult for them to be effective in the removal of barriers to FDI. The objective of this service is to identify the highest priority barriers to target with limited resources. This involves identifying the characteristics of different categories of foreign investors, gaining an understanding of the interplay between them and elements of the domestic economy, and sharpening their focus on the most critical factors affecting the decisions of selected target groups.

UNIDO is currently surveying and analyzing the driving forces of FDI to developing countries, taking into account the specificity of different sectors and the constraints faced by foreign investors in their capabilities to compete and upgrade their operations in those countries.

In this connection UNIDO is launching in-depth surveys for African countries, in particular to assess investors' perceptions and assist national IPAs to improve their effectiveness and provide information that could benefit a wider audience of African stakeholders. The first of these surveys, which are intended to be repeated every two years, was conducted in 2001 on a pilot basis. The second one, on a full-scale basis, was conducted in 2003 and is published for release at the UNIDO General Conference on 1-5 December 2003 (UNIDO 2003 c). The survey is expected to:

- Identify sub-sectors of growing interest for foreign investors and determine the characteristics of potentially important investor sub-groups like major exporters, companies with expectations of high growth and new investments and investments with high local content operations;
- Identify trends in FDI inflows;
- Determine IPA services and government interventions most valued by foreign investors and the additional support and incentives that would facilitate new investment;
- Understand the most important determining factors influencing the decisions of foreign investors;
- Develop a forward-looking macro indicator of future investment flows to the region and identify the most attractive sub-sectors for future investments;
- Rank countries in terms of foreign investor perceptions.

The survey is the empirical input for the platform through which country, region and sector level activities could be designed. The platform is a network of IPAs and the first of these has been established for the sub-Saharan countries with the ongoing UNIDO integrated programmes.<sup>2</sup>

Based on the analysis of the survey results (at both the individual country level and the aggregate level) the network is the vehicle to develop comprehensive activity plans and promotion strategies for each member country.

UNIDO's focus and deepening specialization in specific industrial sub-sectors; operational involvement, through the integrated programmes, in micro-level issues; high profile presence and multi-faceted involvement in the integrated programme countries provide it with a natural network, which differentiates UNIDO interventions.

The network also serves as a means for continuous capacity building and the introduction of relevant products and services into the activities of the IPAs in the countries covered, and to facilitate interchanges between the IPAs and UNIDO Investment and Technology Promotion Offices (ITPOs).

## 2. Assistance to IPAs in becoming a part of the industrial development support system

In order to be more effective in inserting the country into the global industry networks, the IPA itself must integrate into the industrial development efforts of the country. It has to establish strong linkages with domestic manufacturers and to work with or facilitate the work of other institutions. IPAs need to map out the characteristics of important industrial sub-sectors, benchmark their competitiveness and develop a database of company profiles. They have to look for ways to interlink FDI promotion with the mobilization of domestic investment.

UNIDO interventions take two forms: Proprietary training packages and tools; and joint programmes with critical stakeholders like banks, private consultants, chambers, manufacturers and other professional associations as well as ministries and parastatals.

The approach is to build a core group of representatives of different organizations to assess companies and develop a picture of "state-of-enterprise" in targeted sub-sectors. Together with the review and assessment made by the relevant technical branches of UNIDO, this information is the basis for the preparation of sub-sector profiles.

The main tools used for these activities are the Computer Model for Feasibility Analysis and Reporting (COMFAR), the Industrial Investment and Technology Promotion Profile (IITPP), and training material on project formulation and appraisal. COMFAR is a widely used application tool for structuring different categories of investment projects and conducting various forms of financial and economic analyses. IITPP is a tool for the systematic profiling of enterprises and investment projects

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<sup>2</sup> UNIDO-Africa Investment Promotion Agency Network (AfrIPANet) was launched in November 2001. Its second meeting is scheduled for 2-4 December 2003 in Vienna.

with automatic links to COMFAR for quick appraisal and comparative analysis of competitiveness with competing countries. The extensive training in the application of UNIDO tools provides the members of the core group with common appraisal standards and analysis methodologies that facilitate closer cooperation in project development and financing.

The database of company profiles and the sub-sector analyses, developed through close cooperation with the relevant national stakeholders, provide the IPAs a deeper understanding of the domestic private industry and the dynamics and relative competitiveness of key sub-sectors. Together with close links to the key umbrella and technical support institutions developed through the joint programmes, this allows the IPAs to craft much more informed promotion strategies with more analytical information with which to approach potential investors, and to be in a much stronger position to lead and coordinate the national investment promotion drive.

The company profiles can also be used by IPAs for promotion through the UNIDO ITPOs. This promotion cycle is additional IPA capacity building, presenting the opportunity to IPA staff to design and execute promotion events in targeted investor countries.

A key feature of UNIDO's strategy is to frame FDI and its promotion within the overall objective of productivity gains. Consequently, UNIDO's tools and training focus on specific forms of FDI. In particular, UNIDO fosters the skills needed to facilitate modes that are more conducive to technology spillovers, such as industrial joint ventures and technology transfer partnerships. In addition, support is provided to develop capital market financial instruments designed to both overcome some of the effects of weak financial systems and to facilitate the design of targeted incentive systems that guide investors into desirable economic activities.

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