

EXPERT GROUP MEETING

Leveraging Foreign Direct Investment (FDI) through Supply Chain Development and Local Subcontracting

UNIDO SPX
ONUDI BSTP
ONUDI BSA

11-13 September 2007

UNIDO Headquarters
Vienna International Centre
Austria

Expanding the UNIDO Industrial Subcontracting and Partnership eXchange (SPX) Programme

Summary Report

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Day 2, Wednesday 12 September 2007

09:00 SESSION III

Supplier Benchmarking and Development

'Extension of SPX Programme to Support Development of Productive Capacities'

Chair: Mithat Kulur UNIDO

Presenter:

Herman Potgieter Supply Chain and Benchmarking Expert

Panel:

Leida Schuman SASOL, Programme Manager of Black Economic Empowerment
Procurement (BEEP)

Modupe Adelaja Small and Medium Enterprise Development Agency Nigeria (SMEDAN),
Director General

Martin John Mutuku Kenya Association of Manufacturers (KAM), CEO

10:30 Coffee Break

10:45 Open Discussion of SESSION III

12:00 End of Session III

12:30 Lunch Break

14:00 SESSION IV

Integrating Main Contractors and Large Buyers into SPX Programme

'Strengthening the demand side of the SPX Programme with strategic partners'

Chair: John McFadzean UNIDO Investment and Technology Promotion Office (ITPO) UK

Presenter:

Jagit Srail Centre for International Manufacturing - University of Cambridge, Co-Director

Panel:

Babs Jolayemi Omotowa Shell Nigeria, Supply Chain Manager

Roy Ayliffe Chartered Institute of Purchasing and Supply (CIPS) UK, Director of
Professional Practice

Richard Hawtin Westminster City Council, Director Procurement,

15:30 Coffee Break

15:45 Open Discussion

17:00 Close of Day 2

Day 3, Thursday 13 September 2007

09:00 SESSION V

SPX Programme as a platform for Investment Promotion Strategies

`UNIDO Case Study: SME Automotive Components Sector in India`

Chair: Alejandro Vera-Casso, UNIDO Investment Promotion Expert

Panel:

Bruno Valanzuolo UNIDO, Chief Technical Advisor

Vincenzo Ziliotti SPX Expert

Mr. Suvendu Mahapatra SPX Delhi

10:30 Coffee Break

10:45 Open Discussion of SESSION V

12:00 End of Session V

12:30 Lunch Break

14:00 SESSION VI

Conclusion and Recommendation

`Summary of the Sessions`

Chair: Mithat Kulur UNIDO Chief of Investment Promotion Unit (IPU)

Panel:

Nicola Schicchi SPX Expert

Mustak Caglar SPX Expert

John McFadzean UNIDO ITPO UK

Alejandro Vera-Casso UNIDO Investment Promotion Expert

15:30 Coffee Break

15:45 Open Discussion

17:00 Final Statement and Close of EGM.

2. List of Expert Group Meeting Participants

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3. Summary of Expert Group Meeting Discussions

Background

Over the last 25 years, UNIDO has established some 60 Subcontracting and Partnership Exchanges (SPXs) in more than 30 countries worldwide, creating a network that aims to help local enterprises successfully meet the challenge of globalization by becoming subcontractors to transnational companies. Industrial subcontracting is now part of the globalization process; in their constant pursuit of a competitive edge, enterprises are outsourcing their operations and seeking suppliers around the globe, and in almost all industrial and service sectors, as evidenced by the ever increasing share of subcontracting and supply in international trade.

In this context, the main value-added of the SPX Centre is the help it can give to local suppliers and subcontractors in developing countries and economies in transition who want to gain access to value chains or production systems in local, regional and global markets. Depending on the institutional set up of each country, the SPX Centre is located either in a private sector association (Chamber of Commerce, Manufacturer's Association, etc.) or a public sector institution (Investment Promotion Agency, SME Development Agency, etc.). Ideally, the employment structure of the SPX reflects the respective mandates and specific know-how of each of these institutions.

In the past, the SPX Centres carried out the following tasks:

- They collected technical information on the manufacturing capabilities and capacities of their member enterprises in selected sectors, such as metal, plastics, rubber, electronics and industrial services.
- They established comprehensive, computerized databases of enterprise-level information, using a nomenclature system such as ISIC, HS, EEC A, EEC B etc.¹
- They offered match-making services to link subcontractors with contracting enterprises seeking qualified and reliable partners to manufacture their products or provide them with services—in effect acting as a clearing house between those seeking and those providing industrial subcontracting, supplies and partnerships.
- They organized international promotion events, such as partnership days, reverse fairs, where large outsourcing firms exhibit their products, and subcontracting fairs

When the UNIDO SPX programme was launched over two decades ago, it had a vision of setting up an international network of exchanges that could link contractors with potential partners. This initiative led to a better understanding of the global procurement and subcontracting strategies of transnational companies (TNCs) and of the need to develop strategies that could penetrate their production and distribution networks. It has now been recognized that this is no longer enough and that the traditional SPX approach needs to be revisited to realign its strategy to the current conditions and trends of globalization.

¹ International Standard Industrial Classification (ISIC), the Harmonized Code for combinations of key raw materials (HS), Nomenclature of Subcontracting Products (EEC-A) and Nomenclature for production processes (EEC-B).

This EGM aims to review the SPX programme and suggest new initiatives to recast it, taking into consideration the lessons learned since the initial design and the global developments that have subsequently taken place. In particular, two broad issues will need to be investigated:

1. How new methodologies can be developed to enable the SPX platform to benchmark potential suppliers. This is especially relevant in the case of least developed countries (LDCs), where the participation of local companies as sub-contractors or suppliers to TNCs has been very limited; they need substantial upgrading investment if they are to become competitive. Thus, the SPX must not only perform a precise matchmaking function; it should also inform potential sub-contractors and suppliers of what they need to do to compete and to mobilize investments.
2. How to ensure that TNCs become partners in the SPX process. It is important to develop a genuine buyer-driven approach which will expand the functionality of the SPXs beyond merely channelling requests for quotations (RFQs) and promoting SPX member companies through international events. Major buyers and contractors must be actively engaged as partners who will cooperate in developing lists of products and services (with their specifications) that can be supplied as local content.

The main beneficiaries of such a revisited SPX approach would be small- and medium-scale industries. They would become more exposed to large private enterprises and public procurement bodies and would eventually increase their output and investment volumes. Likewise, large enterprises acting as main contractors and buyers would benefit from increased levels of local content. This would reduce their procurement costs while strengthening their acceptance by other economic and political actors as important drivers of economic growth. SPX host institutions, too, would benefit as their staff develop the capacity to produce evidence and strategies for local supply chain development. This would result in an improved policy-advocacy role for private and public sector institutions for fast-tracking and sustaining a virtuous circle of the investment climate reform process.

The purpose of the EGM was to encourage discussion among the participating stakeholders and expert advisors about how the services of the SPX Centre could be rendered even more beneficial for the main stakeholder groups in relation to key issues and trends of global investment and production patterns. The EGM was organized in five half-day sessions, each focusing on one issue. The last session subsumed the various recommendations of each session into a revised concept of feasible actions for the next stages of the SPX programme.

- Session I: Overview of the UNIDO SPX programme
- Session II: SPX new software: Outsourcing 2007
- Session III: Supplier benchmarking and development
- Session IV: Integrating main contractors and large buyers into the SPX Programme
- Session V: The SPX Programme as a platform for investment promotion strategies
- Session VI: Conclusion and wrap-up

Session I: Overview of the UNIDO SPX Programme

The presentation by the former SPX Programme Coordinator, André de Crombrughe, recapitulated the definition of an SPX, its evolution over the past 25 years and the contribution it has made to the private sector. He gave a short overview of the main characteristics of SPX Centres, as identified in the 1997 Survey. The sectoral distribution of SPX member companies is dominated by the metal sector (56%), followed by plastic, textiles and industrial services, each with 10%. The sources of their financing are usually composed of 26% from public funds, 21% from the private sector and 8% from company membership fees. The rest is generated by international co-operation, training seminars and fairs. Traditionally, SPX performance has been measured by a set of parameters, namely the number of matchmaking interventions in relation to requests for quotations (RFQ), followed by the parameters of financial sustainability, the number and values of concluded contracts and the number of promotional events hosted by the SPX institution.

A recent survey, in August 2007, gave a snapshot of the survival rates of SPX Centres in different parts of the world. This showed that “the SPX Network is rapidly dying”; clearly, it was time for immediate counteraction. Of the 75 SPX Centres established worldwide, 23 can currently be considered fully operational. The main reasons for SPX failures were identified as a cessation of support from the government and/or the private sector and a lack of interest from the host institution itself.

	Europe	Africa	Arab countries	Asia	Latin America
SPX survival rate	2/7 = 29%	2/6=33%	4/12=33%	7/12=58%	13/38=34%
Operational SPX Centres	France and Turkey	Cote d’Ivoire, and Senegal	Algeria, Qatar, Morocco and Tunisia	China, India and Sri Lanka	Chile, Colombia, Mexico, Panama, Paraguay, Peru and Uruguay
Status of surviving SPX host institutions (public, private)	private (1) and mixed (1)	private (1) and public (1)	mostly public	mostly public	mostly private
Main reason for failure	Lack of interest by host institution	Lack of support from the government/private sector	Lack of support from the government/private sector; Staff drain	Lack of interest by host institution	Lack of support from the government/private sector; Staff drain

These reasons and the appropriate remedial actions can be grouped under four headings.

1. Lack of financial sustainability

Very often, SPXs become non-operational because funding comes from only one source, or funding is not properly structured; for instance, some SPXs are fully subsidized or are totally fee chargeable.

Recommendation:

Pursue tripartite solutions involving UNIDO, the government and the private sector, the latter as both associations and companies. There are already cases where leading industrial sectors provide substantial support for the SPXs in their country.

2. The staff's lack of technical know-how

SPXs also become non-operational because of the skills vacuum left by the departure of key staff.

Recommendation:

Recruit and train qualified staff. There must always be at least two or three staff members who are familiar with the SPX concept in order to compensate for fluctuations in staff.

3. Inadequate database management and weak data exchange between SPXs

Usually databases become obsolete after a few years because regular company revisits are not maintained. In addition, an open exchange of databases is often hampered by different individual software systems and a competitive attitude on the part of the individual SPXs.

Recommendation:

Improve the quality of the software and the database and keep the latter continuously up-to-date. To avoid local piecemeal solutions, this should be coordinated centrally from UNIDO Headquarters, though some SPXs should act as regional hubs (e.g. Cote d'Ivoire in Western Africa), coordinating regional networking activities and consolidating databases.

4. Reduced interest by the SPX host institutions, the private sector or the government

In some cases countries do not perceive a real commitment from, for instance, UNIDO Headquarters and its national representation offices, which causes a certain host institution fatigue in maintaining SPX services.

Recommendation:

Before implementing a national SPX Centre, a careful study of the country-specific preconditions should be carried out. This study should analyse such aspects as the level of industrial development, sector competitiveness, the degree of government procurement, infrastructure conditions, national development strategy, etc., to give an understanding of the country's overall supply and subcontracting capabilities. UNIDO's coordinating role would comprise continual strategic guidance of SPX Centres, based on investment monitoring (using investor surveys, in the framework of the "Regional Programme for Investment Promotion, Facilitation and Governance Enhancement in Africa") and strategic partnerships with TNCs. The UNIDO Investment and Technology Promotion Offices (ITPOs) would need to be mobilized to promote the SPX concept in developed countries and forge strategic alliances with the world's largest TNCs. Session IV introduces specific strategic action plans to bring better responses by UNIDO to demand-side requirements.

Session II: SPX New Software: OUTSOURCING 2007

This presentation started with a brief historical retrospective of the evolution of SPX software from the 1980s till today. The introduction of the Outsourcing 2002 Software marked an important milestone, enabling a broader user community to remotely access integrated databases from a national SPX Network. The Outsourcing 2002 Software also enabled integration with Microsoft Standard Office Programmes, introduced a standardized coding structure, and delivered matchmaking results in a way that was both faster and more user-friendly.

In spite of these major achievements, the SPX staff and development team identified a set of problems with the software and sought to solve these with the new and revamped Outsourcing 2007. Apart from the general obsolescence of the data content, they found that the 2002 search machine process was too long and complicated and that the software was vulnerable to virus attacks. There were also user issues: user groups in SPX Centres had become quite fragmented with some concurrently developing their own local software systems which were adapted to their individual information systems (e.g. in Brazil).

The Outsourcing 2007 software is designed for the Internet, so that large parts of its content become publicly available to the global user community. This means that the accuracy of the data will need to be scrutinized and systems better harmonized among all existing SPX Centres. This is achieved by adding the UNSPS nomenclature (United Nations Standard Products and Services Code) for product and services to the existing nomenclature system, namely the Harmonized Code (HS) for combinations of key raw materials, the EEC-A (Nomenclature of Subcontracting Products), EEC-B (Nomenclature for production processes) and the ISIC System. Subsequent software and questionnaire versions will expand the section on machinery specifications. It was stressed that the company questionnaire has to be simple and comprehensible to encourage the member companies to constantly update the product and process information without any additional assistance from SPX staff.

Towards the end of the presentation, the structure of the revised questionnaire was described in more detail. The first five sections of the questionnaire provide for a general overview of the company, with contact details, size, management and environment issues, and some general information on financial figures and partnerships. The last sections are then devoted to assigning the accurate nomenclature system to the company for specific sector, product and process information. A simple search engine then delivers “one-click” matchmaking results.

The panel and open-floor discussion touched upon the key issues that were raised by the presenters: how to transfer information across the SPXs, software upgrading and maintenance, and solutions that would satisfy the information and results-reporting needs of large contractors. SPX software upgrading and maintenance is a very sensitive issue since the SPX should be constantly updated, like any other software in the market; software developers and SPX experts need to have further discussion and agree a plan of action to provide a more dynamic and interactive software platform that will respond to current market needs. There was also a consensus that the software should be expanded to more national languages, including Chinese, Russian and Portuguese, and that Sub-Saharan African countries must be

included in this major outsourcing database, especially in view of the many new SPX projects to be implemented across the African continent.

It was further agreed that SPXs need a central contact point for after sales services that can be put into action whenever software problems occur, and that software experts should visit the respective SPX Centres, provide training and assist in transferring the information contained in the old databases into the new system.

Most of the participants agreed that the companies themselves should maintain their own company profiles and should individually determine how much company-specific information to disclose. A prerequisite for such a system of company self-assessment to work reliably is that buyer and contracting companies with queries can trace the person/department that is responsible for the information. The SPX staff may of course verify the correctness of data through re-visits to a selected group of SPX member companies. Finally, it was stressed repeatedly that the software should be compatible with the information systems of buyers and contractors because they may have individual product and process requirements.

Session III: Supplier Benchmarking and Development

Mr. Potgieter introduced the Lumus model—an intelligent on-line platform that could substantially expand the value proposition of SPXs by making local supplier or subcontracting enterprises visible in much more detail to the FDI and buyer community. While the current SPX system tends to focus more on detailed supplier profiling (type of products, production processes, machinery etc.), the Lumus model scrutinizes the company's organizational strengths and weaknesses and provides a roadmap to accelerate supplier development collaboratively with buyers and the SPXs. The Lumus model is based on a common business evaluation and development standard, housed on a shared IT platform, and designed to serve different stakeholder groups.

Ideally, the Lumus model encompasses suppliers, buyers, the investor community and development organizations. The presenter put forward recommendations for how the various parties can engage with and benefit from the model:

- It was suggested that *UNIDO* should be primarily responsible for bringing the buyer community on board, for providing systems that measure buyers needs and, subsequently, for aligning buyers with suppliers. *UNIDO* should provide training and development support to the various stakeholders and conduct evaluations whenever possible.
- The benefit to the *buyer community* is that the platform is a tool for recording their requirements and bringing them together with competitive suppliers. This can drive improvements in buyer-supplier relationship, addressing factors such as inventory levels, lead-time, materials requirement planning, quality etc.
- *Suppliers* use the platform to engage with buyers, foreign investors and development organizations. Through ongoing capacity-building and further value-adding, suppliers develop to meet buyer requirements, which brings growth effects on their output and employment levels.
- *Foreign investors* engage with suppliers as equity partners, monitor where they fall short of major customer requirements, initiate change through the development community, and interact with Investment Promotion Agencies (IPAs) to mobilize government support services.

The engine of the platform is a supplier-benchmarking standard for assessing the competitiveness and capability of suppliers in relation to the needs of buyers. It was emphasized that the most widely accepted existing standards (such as ISO 9000 and others) often do not encompass the development of an organization. This means that at a certain time an organization is either certified to fulfill a certain standard or it is not. In the latter case, the existing systems do not provide sufficient indications as to what aspects of the firm need improvement and whether a company makes progress at different points in time. Existing standards are therefore to be complemented by a more holistic set of key high-level indicators in the areas of financial performance (cost management, productivity and financial stability), customer performance (product quality, service quality and customer responsiveness), internal processes (operations management, supply chain management, information management and corporate governance) and learning and growth (leadership, human capital management, safety and health and environmental management).

The benchmarking process is initially by self-assessment but this should be verified by a neutral benchmarking expert. In the initial phase of the project, quick-wins can be achieved by starting with willing and ready participants, and then bringing other players on-board.

The platform will help identify development gaps between the firm and world-class suppliers or service providers in a given sector and country. Buyers usually base their procurement strategies along two dimensions: one is the range of cost of supplied items and the other is the risk associated to the supply of items. These strategies are very often reflected in a “procurement matrix”. It was emphasized that many suppliers in developing countries are positioned in the “supply of low cost – low risk items” end of the matrix as they tend to have low compliance rates and to be unstable, which leads to a high churn (replacement) rate, and normally have a high level of administrative problems in invoicing, handling credit notes etc. Transactions involving this type of item are usually based on a request for quotations (RFQs), which are by nature short-term and arms-length. Here, the objective of the benchmarking programme is to stimulate an upgrading path towards the supply of higher impact products and into the “high cost – high risk” quadrant. This entails a migration from lower tier levels to the level of first tier suppliers and original equipment manufacturers, which have long-term contracts with their buyers, minimizing the risk for both parties. The role of the SPX is to assist local suppliers in developing action plans, which could usher in such an upgrading process.

The collaborative nature of the platform increases the exposure of suppliers to potential partners that see an investment opportunity in firm-level upgrading programmes and are willing to provide technical and managerial know-how. The issue paper lists the different actors that are instrumental in this process, including financial institutions such as commercial banks and equity funds, local and foreign investors, and also government development agencies. It was recommended that the role of the SPX Centre is to act as a contact point for companies, enabling development by linking or contracting development resources and to then monitor the subsequent development process through the IT systems and periodic verification audits. This would substantially shift the role of the SPX towards coordination instead of a uniform “do-it-yourself” approach of attempting to house all these development resources within the SPX Centre itself. The latter, it was said, is probably neither feasible nor desirable.

Ideally, the local suppliers interact with the benchmarking platform directly through the Internet. Yet SPXs should also be able to act on behalf of suppliers who do not have access to, or the skills to interact with, the shared systems on the Internet. It should, furthermore, protect the confidentiality of a company’s information by differentiating confidential and publicly accessible information, as determined by the company itself.

In discussion after the presentation, it became clear that a big-bang approach should be avoided and that the model should first be deployed and tested on a smaller scale before rolling it out as a macro platform. The use of a single model would, for instance, make sense with the Africa Mapping project linked to the regional infrastructure development projects and with the Chartered Institute of Purchasing and Supply (CIPS). Against this backdrop, the representatives of the South African Department of Public Enterprises stated their willingness to use the SPX benchmarking model for the development of more competitive supply chain structures in the South African foundry and metal sector in close cooperation with Eskom, South Africa’s largest public electricity provider.

Participants emphasized the importance of aligning and linking the new benchmarking standards to existing standard systems. There was a general consensus that companies' self-assessment is a starting point to obtain information about supplier development needs. However, control and monitoring systems need to be put in place to ascertain the accountability and traceability of the data. Some participants proposed that data collection should be conducted at least every year so that the company's development along the projected trajectory could be followed. It was understood that this challenging task could only be sustained if the SPX involves a strong capacity-building and training component. The major asset of the SPX staff is that they often have a good overview of the capabilities and concerns of the private sector in a given country and sector but they are challenged by a general fatigue of companies to undergo another performance assessment. Training programmes should therefore be geared towards improving the communication skills of SPX staff so that they can promote the benefits of the supplier development programmes more effectively. These final conclusions closely tied into the next session that specifically focused on the demand side and that elaborated solutions as to how the SPX Centre could leverage the commitment of large transnational corporations and public procurement bodies.

Session IV: Integrating main contractors and large buyers into the SPX Programme

This presentation explored the key globalization trends in manufacturing and supply chains, their potential relevance to SPXs, and how they may impact on future SPX development and services. The key assumption was that the viability and success of the SPXs depends heavily on a strong demand-driven focus that takes into account the service and product requirements of large transnational corporations (TNCs). The issue paper identified several key TNC trends that have direct implications for the relevance of the SPXs:

- 1.) Large TNCs increasingly seek to rationalize on suppliers in order to simplify their manufacturing and supply networks. This opens up new opportunities for SPXs to develop tier 1 suppliers so that they can 'step-up' to meet TNCs requirements.
- 2.) TNCs increasingly require suppliers of an international scale that are able to manage demand requirements across national borders. SPXs should build in local accreditation services that will facilitate the integration of suppliers into international production systems.
- 3.) TNCs are undergoing a gradual shift away from short-term transactional buying (requests for quotations (RFQs)) to long-term contractual arrangements. The best opportunity for SPXs lies in the promotion of new TNC-supplier partnership programmes.
- 4.) TNCs and original equipment manufacturers (OEMs) lack knowledge of the upstream supply network structure in developing countries. SPXs need to fill this knowledge gap by providing sector-specific supplier tier and sector cluster data.
- 5.) As tier 1 and tier 2 suppliers develop their value chains they become increasingly adept at penetrating the traditional territory of OEMs. SPXs need to stimulate this process by offering supply upgrading strategies based on supply chain mapping studies.
- 6.) TNCs are continuing to globally outsource and off-shore their operations. This is good for SPXs in low-cost countries who are focusing on upgrading suppliers' innovation/product capabilities.

A new engagement strategy was suggested for establishing and expanding relationships with TNCs, which would involve the local SPX Centres, the UNIDO Headquarters and UNIDO ITPOs. The presentation recommended an evolution of the SPX programme from being mainly a transactional arms-length supplier source with differentiated local offerings into a common quality-controlled standardized model, building in new SPX system functionalities. UNIDO offices are responsible for process definition and actively facilitating selective TNC-supplier partnerships at both corporate and local levels.

The role of UNIDO headquarters and UNIDO ITPOs is to establish direct links with the corporate headquarters of selected TNC champions and form a permanent working group. This should lead to a documentation of their supply chain and outsourcing strategies, and give a good understanding of TNC requirements beyond the simple transactional RFQs. The information generated in the course of these strategic partnerships will be fed into the network of SPX Centres. The local SPXs will help identify local TNC champions (in many cases subsidiaries of TNCs that were approached at corporate level) in order to jointly develop country-level programmes that will bring local content development and sector

cluster development. The SPX will tie up with potential software providers, other exchanges and in-house SPX development teams to provide a new system functionality that reflects the procurement requirements of TNCs, giving it a unique selling point compared to existing commercial systems.

The presenters concluded that the SPX activities should include a strong component of supplier capacity-building and upgradation. Supply-chain mapping studies were seen as a useful tool to develop clusters of companies in specific sectors and reduce bottlenecks that currently hamper local multi-tier supply systems in many of the SPX countries. The overview of objectives and organizational lead responsibilities are shown below:

Strategic	Define strategic roles of UNIDO HQ, SPXs	UNIDO HQ
	Establish corporate TNC champions	UNIDO HQ
	Develop TNC 'key account' management roles	UNIDO/SPXs
	Scope out franchise model	UNIDO/leadSPXs
Operational	Identify TNC local implementers	Local SPXs
	Identify local TNC champions	SPXs-UNIDO
	Identify supplier availability/capacity shortfalls	TNC-SPXs
	Build TNC awareness of SPX Programme	UNIDO-SPXs
	Improve RFQs response (speed, quality)	SPXs
Technical	Integrate SPX system developments	SPX Dev team
	Identify supply network capacity issues (through supply network mapping studies)	UNIDO-SPXs

An illustrative case study was presented of an electricity-generating firm in Hong Kong that had to undergo several costly processes until it found a suitable local supplier of cables. The presence of an SPX would have considerably reduced the costs for the buyer company. SPXs, therefore, have the potential to become a good vehicle for providing tailored solutions to TNCs seeking to increase local content. Hence it is crucial that the SPX staff understands the business aims and strategies of TNCs while they are assisting suppliers to rapidly satisfy them.

Subsequent discussions picked up on the themes of the main presentation. It was emphasized that local promotion activities through fairs and campaigns need to be complemented by top-level actions by UNIDO headquarters to promote SPXs in the global forum. By the same token, the importance of strategic guidance by UNIDO headquarters, based on the follow-up and analysis of global trends, was seen as enriching and streamlining the work of local SPX Centres. A controversy arose about whether SPXs should charge a fee for their services in order to ensure their long-term sustainability. However, most agreed that basic supplier database information should be offered for free. Only more specific services such as sectoral studies, supply chain mapping and supplier development programmes might eventually be charged for. The issue of the corporate social responsibility (CSR) of TNCs was briefly mentioned. A condition for SPXs cooperation with TNCs is that they commit themselves to transparent and socially-accepted management practices.

Further discussions underpinned the importance of bringing public procurement bodies into the service range of SPXs. In LDCs, in particular, public procurement often accounts for the

lion's share of overall procurement, and therefore constitutes a considerable upgrading and growth potential for OEMs and first tier suppliers. It is part of UNIDO's responsibility to communicate this potential to local governments so that they will shift from import-reliant procurement strategies to local supplier development programmes.

Session V: SPX Programme as a platform for Investment Promotion Strategies

A case study was presented of an ongoing UNIDO SME Consolidated Project in India that was set up to support SME clusters, and to upgrade and promote investment in SMEs. The three-year UNIDO Technical Assistance Project in India (2007-2009) focuses on the SME auto-component companies located in the principal production hubs of the country (Chennai and Coimbatore, Pune, Gurgaon and Noida).

The project is using the SPX software, Outsourcing 2007, to integrate the investment and business promotion activities currently being conducted in this project. This tool combines four services in one:

- Sub-contracting promotion – looking for buyers;
- Joint venture promotion;
- Private equity promotion;
- Promotion of technical schemes.

Using the SPX tool, this project has been able to bring all these services together under one budget and one co-ordinator, and with a level of synergy that UNIDO has not applied before.

The project has set up a database of 1000 benchmarked auto-component companies. Outsourcing 2007, with its 40-question questionnaire, provides a high level of insight into a company's performance and capabilities, enabling buyers to make a sound assessment of their potential suppliers in terms of their quality management, logistics, etc.

Outsourcing 2007 has proven itself to be a good diagnostic tool for company profiling and sector analyses, and its application could provide a starting point for determining how supplier capabilities can be brought into alignment with OEM or TNC requirements, for encouraging entrepreneurship, and for identifying investment promotion possibilities. It has also been found that the Outsourcing 2007 questionnaire can be applied, with some additional questions, to the kind of profiling required by private equity companies when they do a first cut; they can then make an informed choice of which companies they wish to see further, and make significant savings. In India private equity associations are therefore increasingly interested in teaming up with UNIDO's SPX Centres.

The presenter pointed to the fact that there are many other companies that do the kind of supplier profiling that the UNIDO SPXs are doing. The principal advantage of SPXs lies in the involvement of small teams of engineers, and in the SPX network which brings a better prospect of sustainability. They also score well in being trusted by SMEs, a critical factor when these companies are being subjected to quite penetrating questions, as is especially the case with profiling for private equity companies.

Sourcing auto-components globally is now economical for buyers, but nevertheless this is a highly challenging sector to maintain a competitive edge in. New and evermore sophisticated components are taking over the market, and capabilities must be constantly upgraded. Logistics and local infrastructure are also crucial factors. For the auto-component sector in particular, the SPX Outsourcing 2007 software is a valuable tool for studying the current level of supplier capacity and for improving it through targeted supplier development programmes.

This too, it was emphasized, is an appropriate environment for putting the SPX to good effect. India has good economic preconditions and long experience in setting up SPXs, and the automotive industry is especially suitable for SPX promotion.

Recommendations for the SME Auto Component India Project

Based on the Indian experience the following recommendations were presented for SPXs:

- ITPO SPX Delegate Programmes together with Location Supply Chain Mapping and quality databases form a good promotional base for the project.
- The project can network the databases of the 3 locations.
- Equity funds are a good source of financing for joint ventures and subcontracting and add value to SPXs.
- ITPO China is willing to cooperate with the project at two levels: 1) share SPX experiences and 2) route SPX/RFQ to India from China
- This project can be the basis of a future SPX revitalization programme in India.

Discussion

In subsequent panel and open floor discussions, participants recognized that SPXs could be perceived as vehicles for investment promotion, but noted that some points should kept in mind when implementing them:

- The idea of having a database network should be further studied. Regional networks could also be developed to create synergy among all SPXs. Individual SPXs will provide detailed and relevant information but cannot do more than that.
- If ITPOs are to promote SPXs, an SPX delegate who is fully aware of the SPX Programme and the databases should support the work of selected ITPOs.
- Upgrading should be determined by the development level of LDCs and Middle Income Countries (MICs).
- In the case of LDCs, it is likely that more substantial upgrading will be required to overcome major gaps in company and sector capabilities; in such cases, the Lumus model, presented in Session IV, could be used to work out a more complete upgrading scheme. Countries like the Ivory Coast, Tanzania, Nigeria and Kenya would come into this category.
- Some MICs, on the other hand, may already have a standard supply development level. However, some industrial sectors may well need the same level of investment as those in LDCs. A franchising approach could be more suitable for MICs; this would be the case in India and China.

EGM Conclusions

Participants in the EGM sessions recognized that the intermediary role of the SPX between suppliers and potential buyers is invaluable, given the limited sources of information, especially in LDCs. The refinements that have hitherto been made to the SPX model have been limited to expansion of the network and upgrading the SPX software for the changing needs of clients, but not to the methodology it uses. Further refinements are needed if SPXs are to engage effectively in the more competitive environment created by recent advances in the structuring and management of supply chains, where buyers and suppliers are focused primarily on the quality and reliability of information and services.

The critical elements of an effective SPX strategy were discussed:

1. The selection of an SPX host institution: The existing institutional capacity and the potential for capacity development are critical to ensuring the deliverability of SPX services according to the defined SPX methodology.
2. The increasing importance of having a model that engages with buyers Improving and updating the supplier database will only ever be a partial solution if it does not have the capability to monitor buyer requirements and match these with potential supplier capacity. The new approach should include a system that analyzes buyer requirements and compares these with the results of supplier benchmarking.
3. Mobilizing the SPX network for partnerships: A good example is the envisaged integration of the SPX system into the African Investment Monitoring Platform which will increase interaction with other development initiatives, including strategic partnerships for know-how and technology transfer, channels of financial support, new investment opportunities, and other technical assistance for capacity upgrading.

The table below presents the issues that were discussed, the intervention logic that was applied and the interventions that should be implemented.

Issues	Intervention Logic	Interventions
Revising SPX institutional strategy	Development of institutional standards	<p>Revised UNIDO SPX methodology should focus on consistent management and monitoring of SPX network</p> <ul style="list-style-type: none"> • Establishment of global network for integrated supplier and buyer database • Standardized SPX operations supported by information technologies • National, regional and global SPX promotion and branding strategy
Engagement modes	Buyer side engagement	<p>Strategic Partnership with large buyer groups</p> <ul style="list-style-type: none"> • Identification and mobilization of large buyers • Development of buyer database • Analysis of buyer requirements
	Supplier side engagement	<p>Targeting the key industrial sector establishment for SPX database population</p> <ul style="list-style-type: none"> • Benchmarking of supplier performance • Identification of supplier development gaps • Upgrading and investment project plan development • Cluster development and national and regional supplier mapping
SPX customization	Development of Middle Income Country and Least Developed Country SPX models	<p>Selection of host institutions according to their institutional capacity, including</p> <ul style="list-style-type: none"> • Financial sustainability • Ownership structure • Managerial capabilities • Target customers (sector-specific) • Geographical coverage
Sustainability	Diversification of channels for financial support	<p>Development of sustainability models according to the national institutional set up</p> <ul style="list-style-type: none"> • Donor-funded • Country government funded • Private sector supported • Value-added and customer-specific services for direct SPX income generation
Evaluation	Establishment of consistent performance evaluation	<p>Continuous capacity building of SPX units depends on periodic assessments</p> <ul style="list-style-type: none"> • Independent SPX evaluation in terms of compliance with methodology • Continuous monitoring through performance benchmarking, supported by IT
Institutional integrity	Decentralisation of SPX units	<p>Restructuring and integration of existing and new SPX units according to global SPX strategy</p> <ul style="list-style-type: none"> • Evaluation of existing SPX units • UNIDO capacity building programmes for SPX host institutions • Stronger connection to the global SPX and ITPO network
Investment promotion	Stronger alignment of SPXs with national investment promotion stakeholders	<p>SPXs to become a vehicle for investment promotion</p> <ul style="list-style-type: none"> • Diagnostic tool to understand local suppliers • Strengthening capabilities and overcoming gaps to be in alignment with OEMs and TNCs • Expansion of entrepreneurship • Upgrading plan development for establishing business alliances and partnerships with national and foreign investors as well as equity funds

Forthcoming SPX Projects

Establishment of SPXs in Tanzania and Kenya

The SPXs in Kenya and Tanzania will become part of the African SPX Network. These two SPXs will spearhead the process for refining the SPX methodology which is currently being developed in the "Infrastructure Supplier Development Programme" in South Africa. It is also intended to link these SPXs with the large-scale UNIDO "Regional Programme for Investment Promotion, Facilitation and Governance Enhancement in Africa", which has an investor survey, both domestic and foreign, as a central element. The information from the survey will be instrumental for the identification of key SPX sectors and for an effective engagement with large TNCs.

Establishment of SPX Nigeria

The Small & Medium Enterprises Development Agency of Nigeria (SMEDAN) has requested the UNIDO Director-General to establish an SPX in Nigeria within UNIDO's Supply Chain Development Programme (SCDP). SPX Cote d'Ivoire has signaled its willingness to assist UNIDO in building up the capacities of the SPX staff in Nigeria and has put forward the notion of creating SPX hubs in Western Africa. The objective of the project is to promote partnership agreements between local subcontractors and suppliers and main contractors and buyers at national and international levels. The project will contribute to the promotion of technical cooperation activities with other developing and industrialized countries and to the development of and pursuit of innovation by local small-scale industries. The project supports the industrial development strategy of the National Economic Empowerment and Development Strategy Document (NEEDS) "to accelerate the pace of industrial development by radically increasing value-added at every stage of the value-chain" and "to encourage forward and backward linkages".

Consolidated project for SME development in India:

This project aims to implement a comprehensive SME development programme that will create mutual credit guarantee schemes in India. The target of the project will be the "Small Scale Units" as defined by the Ministry of Small Scale Industries of India. The project is based on an innovative approach that integrates technical assistance in the field of credit with cluster twinning, and also promotes investment and technology. Cluster twinning aims at enhancing the competitiveness and sustainability of underachieving SME clusters by forging twinning arrangements between Indian and foreign clusters. This will strengthen the capacities of firms within clusters through cooperative linkages among the firms, between the firms and the other cluster level institutions, and between specific clusters in India and abroad. The foreign investment and technology promotion activities are aimed at increasing the international competitiveness of Indian SMEs through the acquisition of foreign technology and investment.

SPX expansion in the framework of the Gulf Organization for Industrial Consulting (GOIC),

The SPX is considered by the GOIC secretariat and by private sector institutions to be a critical tool for analyzing the development gaps in industrial sectors in the Gulf region. The GOIC strongly supports the enrichment of SPX "Outsourcing 2007" with elements of supplier benchmarking and a methodology for buyer integration as they are currently developed in South Africa.