

# **FDI as a Driver of Growth**

## **What Can Governments Do?**



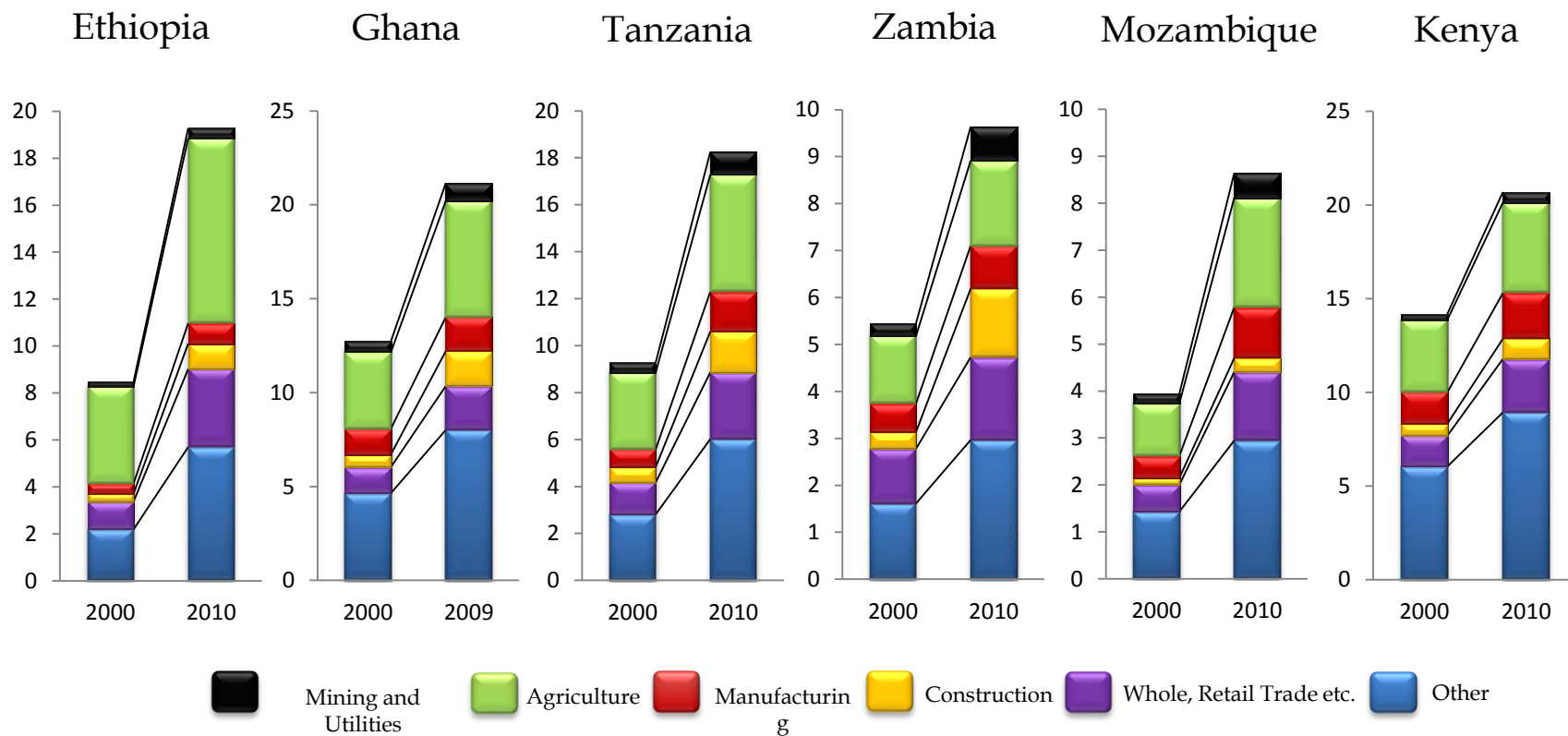
**John Sutton**

# I. Background



✧ Just five years ago, media interest in Africa's economic prospects soared, with news of a decade of sustained high growth in several Sub-Saharan countries.

# The change in size and composition of GDP



(billions of real US\$; base year 2005)

The causes for optimism lay in the fact that:

- ❧ The growth was broad-based, across all sectors of the economy
- ❧ Industrial output had approximately doubled in a decade
- ❧ The fast growing firms came were of widely different kinds: domestic start-ups, long established large companies, new FDI projects.

# Remark



- ❧ The rise in raw materials prices is best seen as a one-off step change in GDP levels, rather than an ongoing potential source of growth.
- ❧ The Agricultural sector will continue to be a key contributor to growth... but the shift of population out of agriculture will be a vital part of the process too
- ❧ The volume of industrial output more-or-less doubled in a decade: my main focus in this talk lies in asking,
  - ❑ (How) Can this continue?

## II. The Worm in the Bud

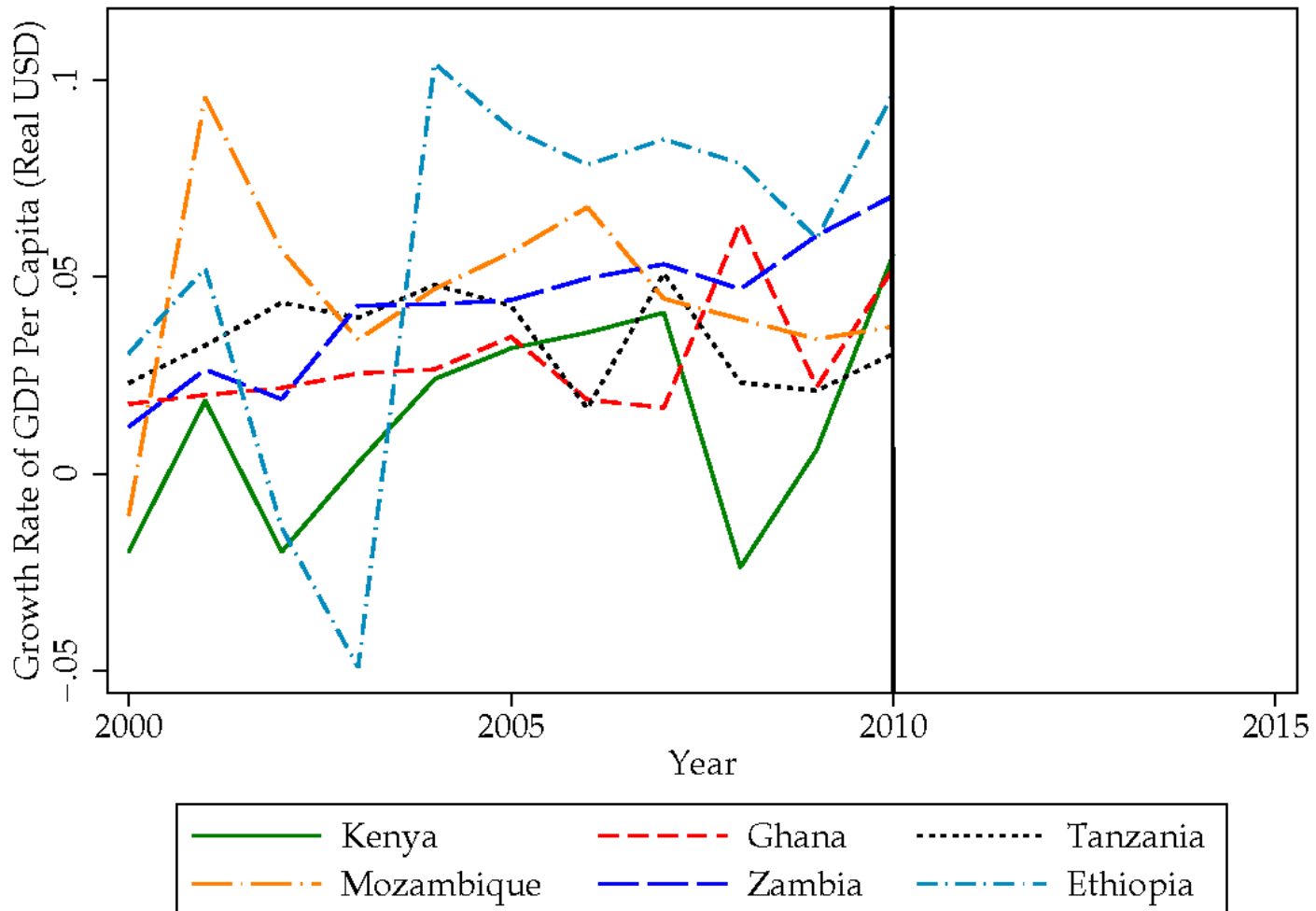


- ✧ Research on countries experiencing fast growth periods indicates a strong tendency for growth rates to fall in the next period ('Regression to the Mean')
- ✧ Was Africa's Decade of Growth just a Flash in the Pan?

# Reviewing the Situation



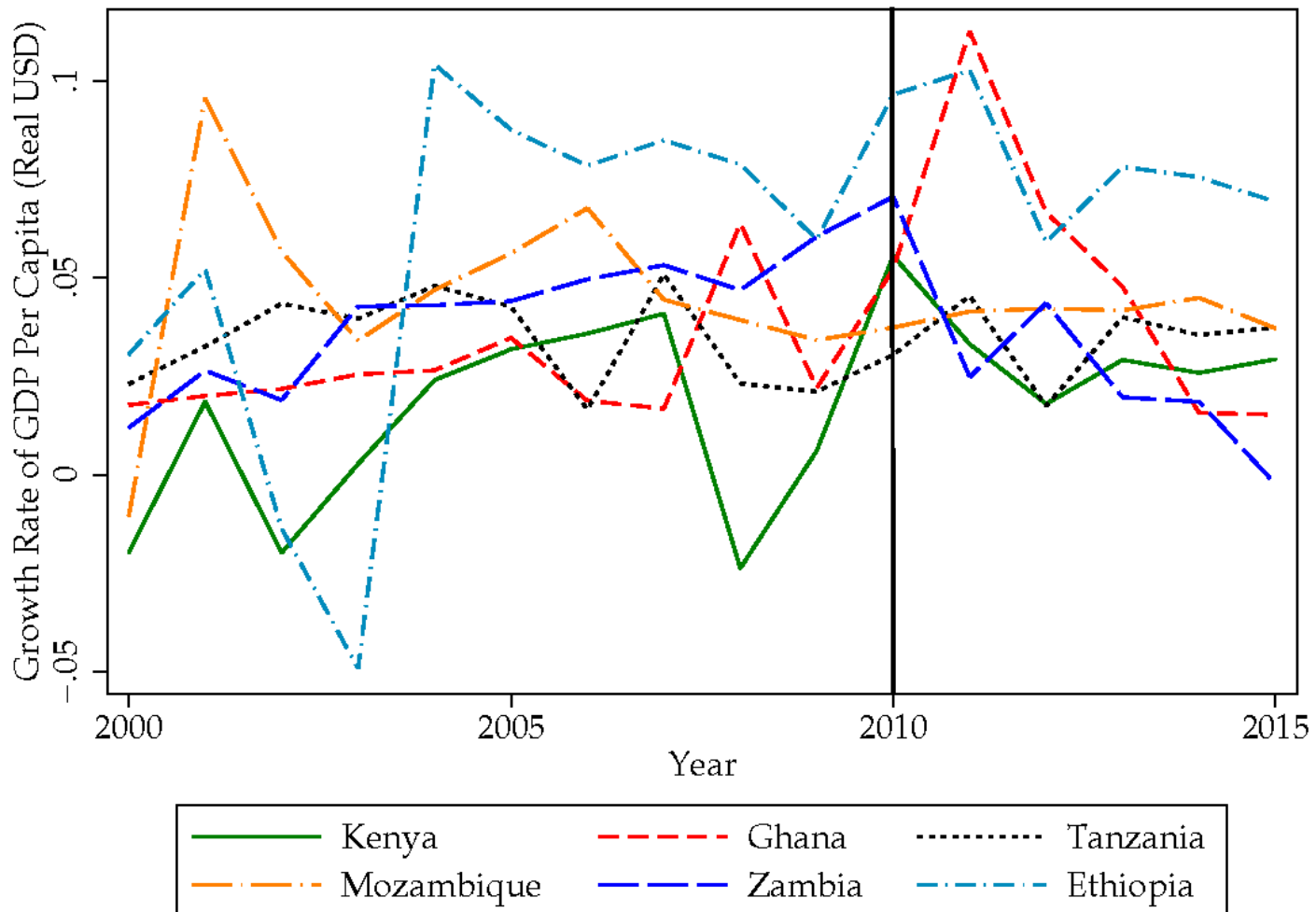
Annual Growth Rates in GDP per capita (2000-2010)



# Reviewing the Situation



Annual Growth Rates in GDP per capita (2000-2015)





# III. The Range of Industrial Activity



What are the industries we see (almost) everywhere?

- ❧ Food, Drink: Wide range, Sugar, Beer
- ❧ Metals: Drawn Wire, Galvanized Sheet
- ❧ Plastics: Moulded Products, Heavy Pipes
- ❧ Building Materials: Cement, Bricks, Tiles

Within this range of Industries, there are some really excellent companies...

- ❧ Bakhressa Flour Mills, Tanzania
- ❧ Lafarge Cement, Zambia

# 'Basic' Manufacturing



- ❧ Selling to a 'safe' local market
- ❧ High transport costs or tariffs protect from imports
- ❧ There is no international supply chain with other firms whose quality standards you must meet

It is this last point that looms largest as we move to middle manufacturing

# Challenge 1: Expanding Output



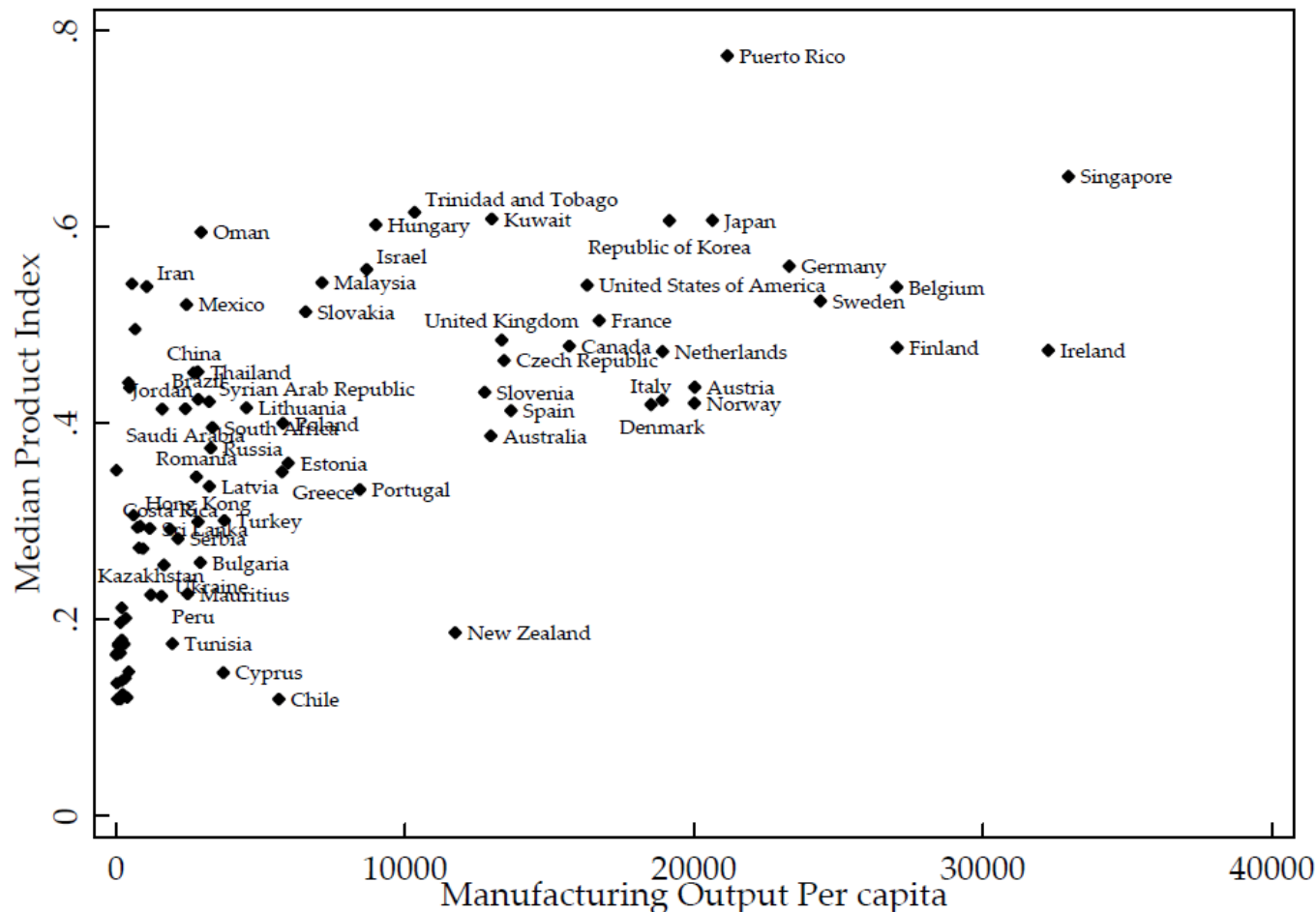
The limited population of well-functioning mid-size firms:

- ❧ We have already seen that exports from (almost) all major export industries are dominated by at most a handful of firms.
- ❧ We have seen how mid-size companies can be important drivers of new industrial activity.
- ❧ The well-functioning mid-size firm is ITSELF the 'scarce resource': even if its market dies its still soldiers on:
  - From Millet Textiles to Aquafresh, Tanzania
  - Zambia's Invesco Ltd (Trading, Fungicides, then Soft Drinks)
- ❧ The large firm sector will be a key driver of growth ... but there is tremendous potential in building up the population of well-functioning mid-size firms.

## Challenge 2: Broadening the Range of Activity



Index of weight of Middle Manufacturing within total manufacturing output versus manufacturing output per capita, in real 2005 US\$, 2006.



# MNCs as a Response to Both Challenges



Clearing the Deck:

Two Kinds of MNC:

- ❧ Natural Resource MNCs
- ❧ General Manufacturing MNCs

What distinguishes the 2 types is:

- ❧ The Bargaining Power of MNC vs. Host Country  
(1 versus 0)
- ❧ The Nature of the gains to be had by the host country

Two Key Agencies:

- ❧ Investment Agency
- ❧ Local Content Unit

# Managing the Process

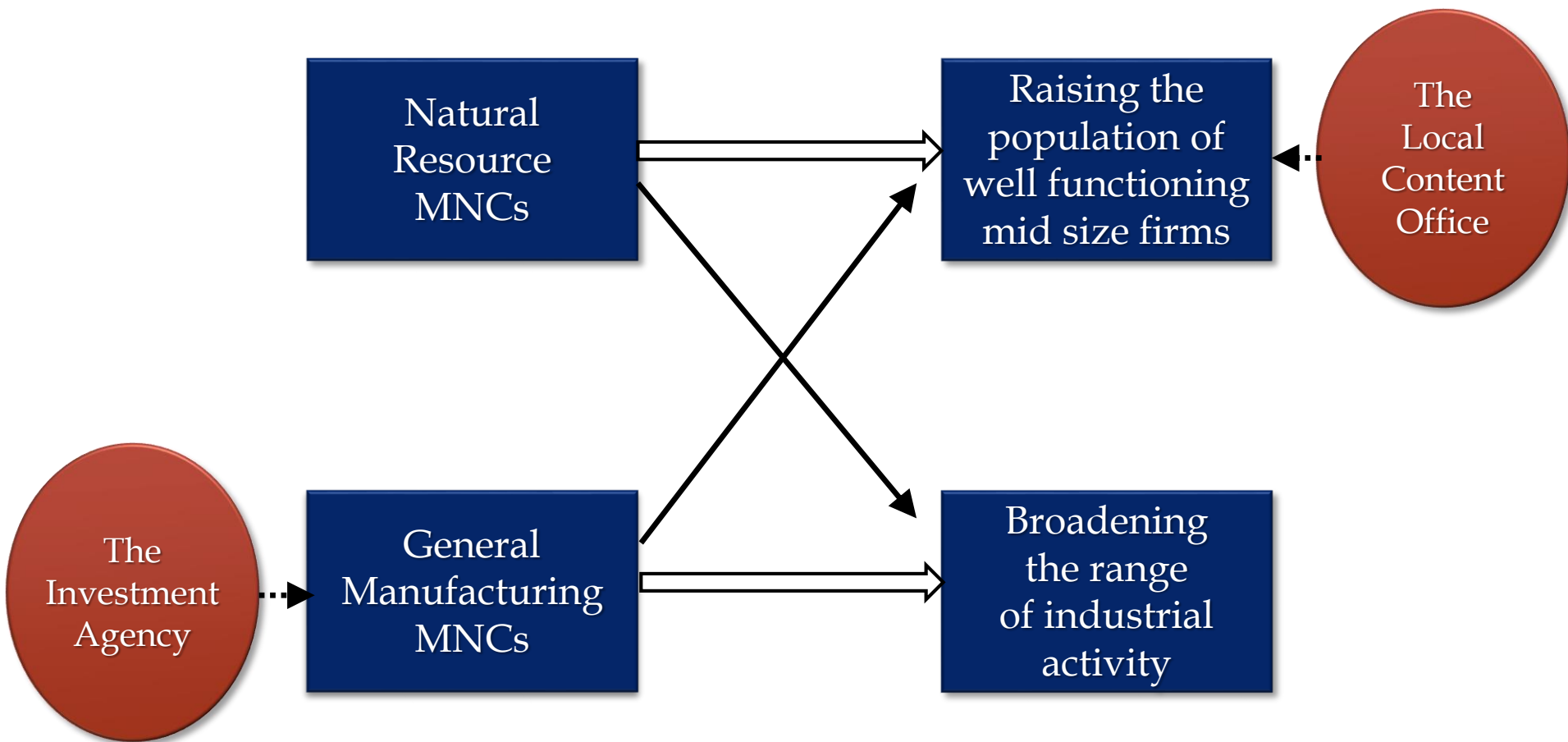


❧ The key barriers:

Power, Land, Logistics (inc. Customs)

❧ The key agencies

- the Investment Agency
- the Local Content Unit



# One Example in Detail: The Ethiopian Investment Commission



- ❧ Background: Typical profile of Investment Agencies
- ❧ Relationship Building as the key to World Class Performance
- ❧ A Well-Established Model Exists, pioneered by Finland, Ireland and Singapore.
- ❧ Central idea is simple: Set up ongoing contacts with key (potential) employment creators....Then have a systematic process of following up all issues that the Agency should assist with, tracking them through to resolution.



# What's the Challenge?



- ❧ The challenge is one of Organizational Change...
- ❧ How to change the culture of the agency from one of 'Issuing Permits', i.e. allowing firms to operate, towards one of actively assisting firms to deal with unnecessary and inappropriate obstacles that hinder their operation.
- ❧ This represents a sea change in the way the Agency works.

# The Details



- ❧ New software to support weekly reports and monthly meetings
- ❧ Lifting paper files from archive to be scanned and uploaded
- ❧ Creating a secure file-sharing system
- ❧ Building up the set of firms covered (now 425)
- ❧ Developing the agenda and arrangements for the monthly meetings

# The Central Point ...



- ❧ Why is the imposition of new practices and procedures the key to changing the culture?
- ❧ It changes peoples' habits and focus.
- ❧ Before these monthly meetings became the focus, individual staff would visit firms, but on an occasional basis, so they saw it as a peripheral 'fun' part of their jobs.
- ❧ Now they came to see it was the thing the Director cared about...and judged them on...and so assisting firms effectively became the central part of their jobs.

# A Local Content Unit



- ❧ Pitfall 1: Relying on Legislation
- ❧ Pitfall 2: Doing Everything at Once
- ❧ Pitfall 3: Exaggerated Expectations
- ❧ Pitfall 4: Missing the Big Opportunities

# Timescale and Phasing



∞ The First Phase: Construction

∞ The Second Phase: General Services

∞ The Third Phase: Engineering

# The Two Channels: Individuals and Firms

---



- ❧ Hiring, Training, Shadowing
- ❧ Firm Training centres (Business and Technical)
- ❧ The role of private and public agencies in firm training
- ❧ A 2 year timescale

# Shadowing Schemes



- ❧ How they work
- ❧ Open recruitment by firms
- ❧ Possible scale
- ❧ Payoffs
- ❧ Pitfalls
- ❧ spinoffs

# The Keys to Success



- ❧ Knowing the Capabilities and Training Needs of local firms
- ❧ Understanding the Standard 'Pyramidal' Contracting Structure
- ❧ Building Effective Cooperation with Multinationals



# How to have openness AND efficiency



- ❧ Knowing local capabilities (The Enterprise Map volume)
- ❧ The concept of Approved Vendor Status
- ❧ How firms become approved Vendors
- ❧ The open tender for Approved Vendors

# A 'Pyramidal' Contracting Structure



- ✧ A lead local contractor (by sector)
- ✧ Building the supplier base via the lead local contractor

# The Breadth of Local Involvement



- ❧ Construction
- ❧ Services (helicopter leasing)
- ❧ Retail(port development)
- ❧ Catering ( Safety Standards)
- ❧ General manufacturing (furniture)
- ❧ Engineering: Finding foreign partners for local firms in the chain

# Urgent First Steps



- ❧ Setting up the Unit
- ❧ Starting by Making Something Happen:  
Training Local Construction Firms
- ❧ Two Strands of Training : in-house secondment  
(Most Technical Training) versus centre-based  
courses ( Most Business Training)
- ❧ The Essential role of MNCs as Partners in this  
Process