Outline

• Overview of TNC-SME linkages and potential benefits
• Success stories: Uganda, Brazil, Mozambique, and Zambia
• Linkages determinants and the policy role
• Key lessons
• Video “Business Linkages in Uganda”
Business Linkages

Buyers ↔ Suppliers

Four types:
- Backward linkages with suppliers
- Linkages with technology partners
- Forward linkages with customers
- Other spillover effects
Importance of TNC-SME linkages to host economies

- TNCs as a source of demand for the outputs of local suppliers
- Quality and capacity upgrade to international levels
- Technology transfer, market information, skills, and easier access to finance.
Linkages and linkages

- Many initiatives to promote linkages
- No two linkage programmes are the same
- Different forms of financing:
  - purely donor-driven
  - government-driven
  - public-private sector partnerships
  - totally independent supplier development programmes run by TNCs
Internal benefits

- Help develop domestic industry
- Deepen the involvement of FDI in host country
- Maximize purchasing of FDI and other companies to the benefit of the host country
- Through multiplier effect assist general economic growth of the host country
- Facilitate import substitution
- Promote Corporate Social Responsibility
External benefits

- Useful selling tool for attracting FDI
- Allow domestic companies to grow and move into export markets
- Improve the general profile of the country’s industrial capacity
Success stories


Egypt, South Africa, Viet Nam, Mexico, Colombia, Nigeria, Brazil, India, Malaysia, Uganda

Uganda

- 6 firms (National Housing, MTN, Celtel, Kinyara Sugar, Toyota, Nile Breweries) with 26 local businesses to streamline their supply chains.
- Impact on employment: from 2006 to 2008, employment in SMEs assisted grew nearly **100%**

- The largest of the SMEs increased its sales by 100% and expanded its staff from 85 to 210 in 2 years

- Another SME increased its sales by 500% and expanded from 2 to 32 employees

Toyota Uganda case
Brazil: Projeto Vínculos

Fill competitiveness gap between TNCs and SMEs

- 300 SMEs – 2500 employees
- 20 TNCs
Forging partnerships

- 3-level approach

Macro-level

- Policies

Meso-level

- Institutions

Micro-level

- Companies
### Results: Suppliers Upgrading

<table>
<thead>
<tr>
<th>Strategic area</th>
<th>February 2008</th>
<th>November 2008</th>
<th>% Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Management</td>
<td>20.48%*</td>
<td>53.87%</td>
<td>163.04%</td>
</tr>
<tr>
<td></td>
<td>1.02 / 5**</td>
<td>2.69 / 5</td>
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<tr>
<td>Environmental Management</td>
<td>4.35%</td>
<td>76.62%</td>
<td>1.661.38%</td>
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<td></td>
<td>0.22 / 5</td>
<td>3.83 / 5</td>
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<tr>
<td>Health and safety at work</td>
<td>15.40%</td>
<td>53.64%</td>
<td>248.31%</td>
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<tr>
<td></td>
<td>0.77 / 5</td>
<td>2.68 / 5</td>
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<tr>
<td>General management</td>
<td>34.73%</td>
<td>72.18%</td>
<td>107.83%</td>
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<tr>
<td></td>
<td>1.74 / 5</td>
<td>3.61 / 5</td>
<td></td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>17.14%</td>
<td>30.91%</td>
<td>80.34%</td>
</tr>
<tr>
<td></td>
<td>0.86 / 5</td>
<td>1.55 / 5</td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td>18.42%</td>
<td>57.44%</td>
<td>211.83%</td>
</tr>
<tr>
<td></td>
<td>0.92 / 5</td>
<td>2.87 / 5</td>
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Mozambique

- 43 farmers linked with CDM Breweries (a subsidiary of SAB Miller of South Africa) for the 2010 barley campaign production
- The farmers diversified their sources of income and learned how to run their farms as a business
- Annual income increased from an average 300USD to 700USD

- Some small farmers increased their productivity by 150%, bought cattle for agricultural activities and upgraded their production techniques
- CDM financially supported technical testing and is willing to buy more than 5 times the amount of barley currently produced

CDM Breweries case
Zambia

- Chilli growing around the hedges of vegetables
- After attending the Empretec workshop, linked up with Taj Pamodzi Hotel and Pick n Pay: opportunity to process and sell chilli (hot chilli 2008, mild chilli 2009, chilli & garlic 2010)
- Outgrower scheme with 100 local farmers (300 kg. each)

- Lumuno Organic Farm (a family-owned business) employs 4 people and works with 100 local farmers to adequately supply the market, improving livelihood of their local community

- Awarded in 2009 and 2010 as best manufacturer in two different exhibitions

Pick n Pay case
UNCTAD’s technical assistance projects

Brazil, Zambia
Uganda, Tanzania
Vietnam, Dominican Republic
Argentina
Mozambique
Peru
Determinants of linkages

- Critical mass of purchasing companies
- Pool of qualified domestic enterprises
- Effective selection mechanism
- Supportive policies and measures
Success factors in linkages

- Viable business ideas
- Highly reputed intermediary institutions
- Remove obstacles and barriers to linkages creation
The policy role

Improving the investment climate

Specific linkage policies

Strategic FDI attraction

Strengthening absorptive capacity
Overall policy implications

- FDI promotion integrated in the overall development strategy
- Incentives to encourage TNCs to invest in strategic activities
- TNCs involved in the upgrading of human resources
- Investment in infrastructure development (e.g. EPZs, industrial and science parks)
- Financial support to strategic investments involving domestic and foreign companies
- Support the development of domestic suppliers and clusters

Source: UNCTAD
**Key lessons**

1. Sustainable linkages require the participation and collaboration of all interested stakeholders

2. A conducive policy environment is needed if linkages promotion has to be turned into an inclusive mechanism to build local productive capacity.