

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**DEEPENING DEVELOPMENT THROUGH
BUSINESS LINKAGES**

By Lorraine Ruffing

Former Head of UNCTAD's Enterprise Development Branch



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PREFACE

This survey presents a series of good practices in promoting business linkages. It is based on the widely held view that business between small and large enterprises, particularly transnational corporations (TNCs), can contribute both to the competitiveness of the enterprises involved and to the growth and development of the host countries. However, it is also based on the assumption that the establishment of a critical mass of sustainable linkages does not happen automatically as a direct consequence of the presence of TNCs, but requires the participation of all stakeholders: Governments through supportive policies, as well as TNCs and SMEs through their vision and commitment.

Evidence shows that a number of countries have deepened the development impact of foreign direct investment (FDI) through measures that stimulate large and small enterprises to work together. This survey identifies possible options for developing countries wishing greater benefits from FDI. It also represents a step forward in the overall work that UNCTAD has undertaken to deepen the understanding of the nature of business linkages, their critical success factors and policies to promote them. In particular, this publication intends to show how the linkage process can be driven by different actors, namely by Governments through public-private sector partnerships, by individual TNCs through stand-alone supplier development programmes, and by bilateral donors and international organizations through technical assistance projects, as well as by civil society.

Given the space limitations, this paper does not attempt to cover SME policies or FDI policies in general. These are subjects in their own right, and are dealt with by other UNCTAD publications. Instead it focuses both on the intersection of these policies in the form of TNC-SME linkages and on the mechanisms countries can put in place to achieve a better integration of domestic and foreign companies on a long-term basis. In doing this, the paper also shows that successful linkage initiatives have rarely been replicated and essentially remain isolated phenomena. Only in one case, that of Penang, in Malaysia, was there a significant scaling-up of the linkage process because of the active role and long-term vision of the Government.

The main lesson to be learned from the experiences presented in this paper is that in order to stimulate replication it is necessary not only to spread best practices, but also to have the active support of the Government. As a matter of fact, the assessment of the effectiveness of linkage promotion initiatives, and the identification of related best practices, cannot be done in an isolated manner, without understanding the policy background underlying them. Experience shows that the success or failure of specific linkage promotion initiatives and their impact on development can be totally misinterpreted if the full picture of the existing mix of relevant FDI and SME-related policies is not accurately drawn.

Following its tenth Conference in Bangkok (2000), UNCTAD began an extensive exploration of the impact of business linkages on development. Afterwards it sponsored roundtables, workshops and expert meetings which pulled together the existing evidence on both the process and its impacts, and it devoted the *World Investment Report 2001* to this issue. Later it made a video, *Business Linkages for Sustainable Development*, with the help of

the Penang Development Corporation and SEBRAE, the Brazilian Small Enterprise Development Agency, to further policymakers' and the business community's understanding of the linkage process.

In 2004, a *Roster of Good Practices in the Promotion of Business Linkages* was elaborated. In an effort to show how the private sector can contribute to development within normal business operations, the roster aims to highlight concrete options for transnational corporations' engagement. This is particularly relevant since most development experts realize that the private sector must play a central role in the linkage process, but that replication of successful corporate initiatives is quite slow, and corporations themselves often struggle with the issues of good corporate governance and corporate social responsibility.

Subsequently, UNCTAD prepared a *Linkages Promotion Toolkit* in order to assist practitioners and stakeholders, including international and bilateral donors, investment promotion agencies and business development services providers in the concrete implementation of programmes aimed at creating and strengthening TNC-SME linkages. The toolkit is the result of lessons UNCTAD learned from the technical assistance projects carried out in this field.

Finally, as a follow-up to the activities already undertaken and to the present publication, UNCTAD will carry out further work on the different institutional mechanisms conducive to linkage creation, with the aim of identifying effective strategies for establishing TNC-SME linkages to the benefit of the host country. In particular, the findings of a global survey, including the cases of India, Malaysia, Mexico, South Africa and Uganda will be published in 2006. The ultimate goal is to identify the underlying determinants of linkage formation and better understand how TNC-SME linkages can become a key driver of economic growth and an effective channel for the transfer of foreign technology and knowledge.

Lorraine Ruffing, former head of the Enterprise Development Branch at UNCTAD, conceptualized and drafted this paper. Many people contributed generously to the elaboration of the case studies, including Boonler Somchit of the Penang Skills Development Center, SY Foong and SH Wong (retired) of Intel, Malaysia, Andre Van Heemstra and Jacques Ferrière (on secondment to UNCTAD) of Unilever, Nick van Rensburg of Zimele, Anglo American, Vicky Schreiber of Poema, George Manu of Creative Squares, Inc, and Busi Bango of Empretec Zimbabwe. The editorial assistance of Toni-Lee Capossela greatly improved the manuscript. Tatiana Krylova, Head of the Investment and Enterprise Competitiveness Branch, UNCTAD, provided encouragement and general supervision, Fulvia Farinelli and Mike Pfister made useful comments, while Rosalina Goyena and Julie Menzli-Henshaw produced a much visually improved document.

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