

Improving domestic supplier linkages

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What do we mean by improving linkages?

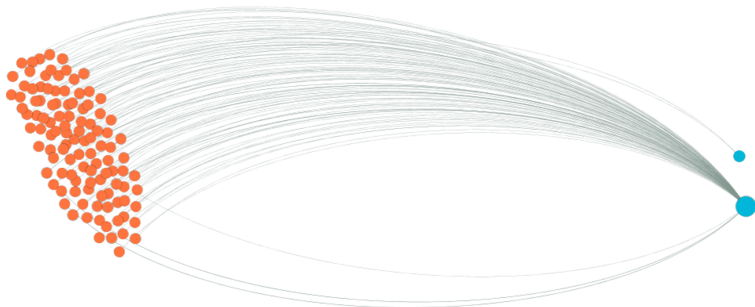
Supply chain



2 factories (blue)

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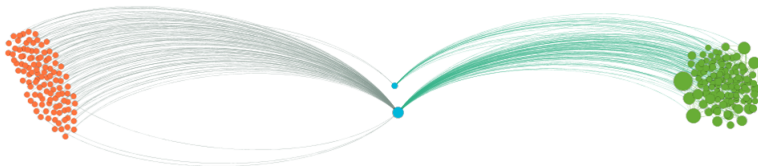
Supply chain



2 factories (blue) buy inputs from 109 suppliers (orange)

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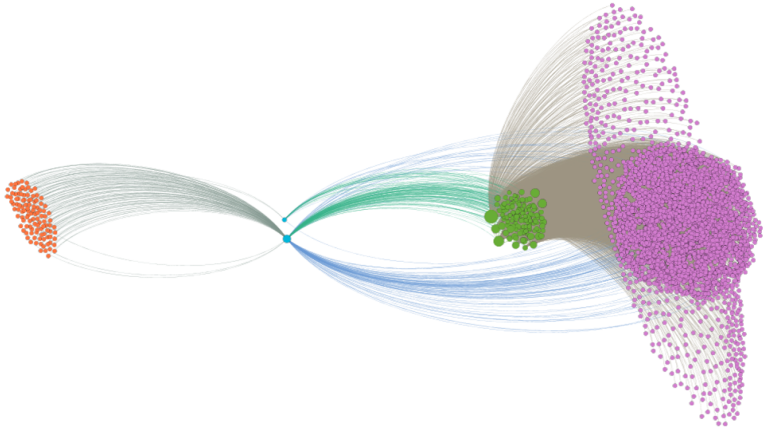
Supply chain



2 factories (blue) buy inputs from 109 suppliers (orange) sell to 122 customer firms (green)

What do we mean by improving linkages?

Supply chain



2 factories (blue) buy inputs from 109 suppliers (orange) sell to 122 customer firms (green) sell to 5431 customer firms (purple)

What do we mean by improving linkages?

- ▶ More Linkages?
 - ▶ Average tax paying firm - 3 customers, 2 suppliers
- ▶ Linkages to better firms?
 - ▶ Exporter, importer, large firm, foreign firms
- ▶ Is there something stopping firms linking?
 - ▶ Can the government address those constraints?
 - ▶ What examples do we have from other countries?

Improve linkages?

- ▶ Firms in Uganda who sell to exporters have systematically higher output per worker (Spray and Wolf, 2017)
- ▶ When Ugandan firms become exporters their suppliers become more productive (Spray, 2017)
- ▶ Rwandan firms who increase use of imports become more productive (Frazer, 2017)
- ▶ Costa Rican firms who sell to MNCs increase productivity (Alfaro-Urena et al, 2018)

What's stopping linking in Uganda?

- ▶ Information
- ▶ Quality

Information: Business groups in China

Cai and Szeidl, 2017

- ▶ Commission of Industry and Information Technology (CIIT) organised 1500 firms into groups of 10
 - ▶ Managers held monthly meetings for one year
 - ▶ group leader in charge of organising meetings
- ▶ Certificate
- ▶ Groups organised by size, sector, given some information
- ▶ Compare to group of firms who were not included

Information: Business groups in China

Cai and Szeidl, 2017

- ▶ Results
 - ▶ Firm revenue increased by 8.1 percent (+ profit, inputs, utility costs, linkages, borrowing, management)
 - ▶ Effects lasted for at least 2 years
 - ▶ Firms which had better peers experienced larger growth
 - ▶ **Firms referred one another and formed joint ventures**

- ▶ Government intervention led to:
 - ▶ Learning: managers shared business-relevant information
 - ▶ Partnering: Managers referred each other to clients and suppliers and formed joint ventures

Information and Quality: Local Content Unit in Ethiopia

Sen and Logan, 2016

- ▶ Several units of the Ethiopian Investment Commission
 - ▶ Relationship Building Programme - intervention aftercare
- ▶ Forums
 - ▶ Large firms invited to discuss their local content constraints (e.g. health and safety, technical requirements)
- ▶ Enterprise Development Centre
 - ▶ Targeted training to a supplier firms

Information and quality: supplier unit and database in Rwanda

- ▶ Large hotel chain in Kigali
 - ▶ extremely little sourced locally
- ▶ Reason:
 - ▶ Quality standard: Hazard Analysis, and Critical Control Points (HACCP)
- ▶ Government intervention:
 - ▶ Identify the problem
 - ▶ Provided support for businesses to obtain certification
 - ▶ Now much greater local sourcing of food and beverage
 - ▶ Building a database

Three reasons Industrial Policy might fail

1. Poor targeting
 - ▶ example
2. Lack of sunset clauses
 - ▶ example
3. Enforced content requirements
 - ▶ example

Conclusion

1. Target anchor firms
 - ▶ exporters, large firms, foreign firms with specific support
 - ▶ specialised unit with database of firms and local knowledge
2. Help firms learn from each other
 - ▶ Business groups tailored to Uganda
3. Avoid pitfalls of industrial policy
 - ▶ enforced content, sunset clauses, picking winners