Improving domestic supplier linkages

John Spray

University of Cambridge

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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)
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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