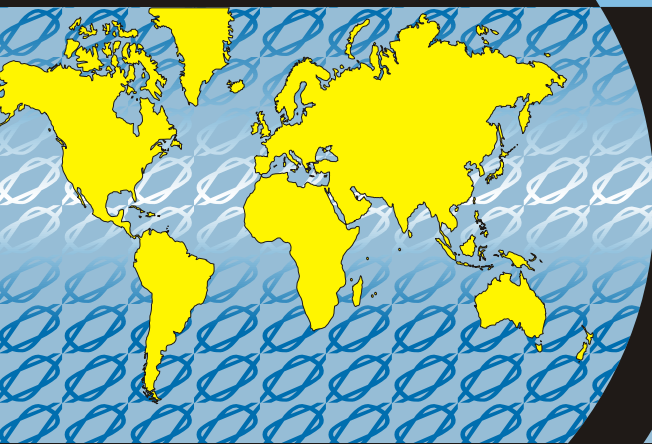


UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# BUSINESS LINKAGES

PROGRAMME  
GUIDELINES



UNITED NATIONS

**UNITED NATIONS CONFERENCE ON TRADE AND  
DEVELOPMENT**

**BUSINESS LINKAGES  
PROGRAMME GUIDELINES**



**UNITED NATIONS  
NEW YORK AND GENEVA, 2006**

## **NOTE**

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries. The views of the authors who contributed articles to Part 2 may not necessarily represent those of the Secretariat of the United Nations.

Material in this publication may be freely quoted or reprinted, but acknowledgement is requested, together with a reference to the document number. A copy of the publication containing the quotation or reprint should be sent to the UNCTAD secretariat.

UNITED NATIONS PUBLICATION
UNCTAD/ITE/TEB/2005/11

## **TABLE OF CONTENTS**

<b>PART I. INTRODUCTION.....</b>	<b>1</b>
<b>PART II. PROGRAMME GUIDELINES.....</b>	<b>5</b>
1. BACKGROUND.....	5
2. PROGRAMME OBJECTIVE.....	7
3. EXPECTED PROGRAMME IMPACT.....	7
3.1. Macro level.....	7
3.2. SME level.....	7
3.3. TNC level.....	8
3.4. Business Development Service (BDS) Industry.....	8
3.5. Institutional level.....	9
4. PROGRAMME DESCRIPTION.....	9
4.1. Summary of key stages of a business linkages programme.....	9
4.2. Institutional Structure.....	11
4.3. Roles and responsibilities.....	12
5. DEVELOPMENT OBJECTIVE.....	17
6. IMMEDIATE OBJECTIVES, RESULTS AND ACTIVITIES....	18
7. PROGRAMME EXECUTION SCHEDULE.....	24

**PART III. ROSTER OF GOOD PRACTICES.....27**

1. INTRODUCTION.....	27
2. BUSINESS LINKAGES CHARTER.....	28
3. ROSTER OF GOOD PRACTICES.....	29
3.1 Encouragement, initiation and support of linkage promotion programmes.....	30
3.2 Support of linkages activities by internal TNC systems.....	31
3.3 Providing funding.....	32
3.4 Providing access to markets.....	32
3.5 Facilitating access to finance.....	32
3.6 Providing feedback, coaching and mentoring...33	
3.7 Fostering of human development.....	33
3.8 Contribution to technology transfer.....	34
3.9 Support of clustering, networking and other forms of cooperation.....	35
3.10 Encouragement of seeding.....	36
3.11 Support of exports.....	36
3.12 Support of gender balance.....	37
3.13 Support of agricultural producers.....	37
3.14 Promoting linkage with non-business entities..	37

**ANNEXES..... 39**

Annex 1: Terms of reference - Project Director.....	39
Annex 2: Terms of reference - Business Linkages Promoter.....	43
Annex 3: Terms of reference - Business Linkages Officer.....	47

## **ABBREVIATIONS**

BDS	Business development service
CSR	Corporate social responsibility
FDI	Foreign direct investment
IPA	Investment promotion agency
SMEs	Small- and medium-sized enterprises
TNCs	Transnational corporations
WAIPA	World Association of Investment promotion agen
WIR	World Investment Report

For further information, please contact:

IECB/DITE  
UNCTAD  
Palais des Nations  
CH-1211 Genève 10

Tel: + 41 22 907 1234  
Fax: + 41 22 907 0122



## **I. INTRODUCTION**

Experience has shown that transnational corporations (TNCs) can have a positive impact in the countries they operate and can contribute to the development of the competitive private sector of these countries by promoting business linkages between their affiliates and small- and medium-sized enterprises (SMEs).

TNC-SME business linkages are potentially one of the fastest and most effective ways of upgrading domestic enterprises, facilitating the transfer of technology, knowledge and skills, improving business and management practices, and facilitating access to finance and markets. Strong linkages can also promote production efficiency, productivity growth, technological and managerial capabilities and market diversification in local firms.<sup>1</sup> As such, according to the Bangkok Plan of Action and the Sao Paulo Consensus, they constitute part of UNCTAD's mandate aimed at enhancing enterprise competitiveness of developing country firms.

The contribution of foreign affiliates' linkage activities to domestic supplier development to a large extent depends on the capabilities of domestic markets and local firms. However, government interventions play an important role in creating an environment conducive to sustainable business linkages, and through policies and regulations supporting the common interests of both foreign affiliates and domestic firms.

---

<sup>1</sup> *World Investment Report, 2001, UNCTAD*



This publication outlines key features and steps of a business linkages programme to build capacity in this area and facilitate SME growth in developing countries and economies in transition. Its objective is to assist interested stakeholders to design and implement business linkages programmes as part of their efforts to enhance the SME sector for the benefit of economic development by such means of enterprise internationalization as TNC-SME business linkages.

Part II of this document highlights some of the main considerations for the initiation and the eventual implementation of a business linkages programme. However, the description of activities that need to be undertaken within these guidelines are not exhaustive. Any party seeking to establish such a programme would need to take into consideration elements that are specific to the country, market and/or other situation to ensure a successful result.

Part III of the document, the roster of good practices, lists some of the concrete activities in which linkages can be created and developed. It provides linkage ideas and represents a checklist for firms to see whether they have exploited their potential for linkages.

This document was prepared by an UNCTAD team under the overall supervision of Tatiana Krylova. Core technical and advisory input was provided by Jacques Ferrière, assisted by Vanessa McCarthy. Valuable comments and contributions were made by Fulvia Farinelli, Helge Mueller and Katrine Arnold.

The document builds on UNCTAD research and reflects its practical experience in the area of TNC-SME business linkages, including its technical assistance projects on developing sustainable business linkages in Brazil and Uganda.



## **II. PROGRAMME GUIDELINES**

### **1. BACKGROUND**

Global supply chains of TNCs usually span several countries and regions. Various parts of the supply chain operations do not necessarily form part of core activities that *must* be performed in-house. Under heightened competition, production and other activities are increasingly being outsourced to third party facilities and companies, sometimes located in more than one country. This allows TNCs to focus on their core competences in the knowledge-intensive stages of the supply chain, i.e. where most of the value added is found.

TNCs have responded to the changing economic environment by concentrating on their core operations, complemented by strategies to outsource operations in which they do not have a competitive advantage. This strategy makes it possible for them to reduce transaction and factor costs by entering into partnerships with local firms. Consequently, many TNCs have built up complex supplier networks of competitive local SMEs.

While this has opened up new opportunities for a number of SMEs, the vast majority of them, particularly in developing countries, remains de-linked from TNCs, therefore, missing potential opportunities of accessing technology, markets, information and finance. Local SMEs in developing countries remain de-linked mainly because:

- Their inability to meet corporate requirements, as well as international standards on crucial production

issues, such as price, quality, delivery, health, labour and the environment.

- A lack of information, experience, contacts, and above all the human and financial resources to implement required changes in their key processes, management systems and technology base.
- Weak managerial skills and a lack of entrepreneurial behaviour.

A large number of studies over the past 30 years have concluded that the presence of foreign firms has helped raise the standards and productivity of many domestic enterprises. Globalization and competition encourage TNCs to form strategic alliances with key suppliers. This may encourage them to assist the development of suppliers so that they can innovate and grow together. Thus, TNCs are willing to provide substantial amounts of human and technical resources to strengthen the competitiveness of their SME partners. A number of TNCs have built up linkage programmes in developing countries. TNCs that have corporate supplier development programmes include Hitachi, Intel, Motorola, Philips, Toyota and Unilever. Through providing training, mentoring and coaching, TNCs can facilitate the technological and managerial upgrading of SMEs.

In addition, the distribution of enterprises by size structure of many developing countries suffers from the missing middle syndrome, hence the urgent need to develop small- and medium-sized enterprises along modern lines in order for the economy to become more competitive, stable, and able to achieve sustainable growth.

## **2. PROGRAMME OBJECTIVE**

To establish a business linkages programme which facilitates the creation of new linkages, and deepens and expands existing programmes between foreign companies' affiliates and domestic small- and medium-sized enterprises in developing countries, thereby making them more sustainable.

## **3. EXPECTED PROGRAMME IMPACT**

### **3.1 Macro level**

- The development of a group of dynamic, competitive, sustainable SMEs;
- Increased participation of domestic companies in global value chains;
- Avenues for increased exports both indirectly (through linkages with TNCs) or directly (through improved operations and products standards);
- Increased industrial deepening;
- Increased transfer of skills and technology to local enterprises;
- Job creation;
- Increased contribution of the private sector to economic growth; and
- Increased tax revenues.

### **3.2 SME level**

- Increased sales;

- Expansion of client base;
- Guaranteed outlet for production;
- Information on market trends for SME strategic positioning;
- Easier access to finance;
- Knowledge spillovers;
- Transfer of technology, know-how, production and management processes;
- Access to coaching and technical advice;
- Improved product standards;
- Improved competitiveness;
- Integration in global value chains; and
- Improved managerial skills.

### **3.3 TNC level**

- Reliable supply structure;
- Cost reduction;
- Flexibility and speed;
- Productivity gains from specialization and outsourcing;
- Reduction in fixed assets and working capital;
- Better use of own resources (capital, human) for core activities and processes; and
- Increased competitiveness.

### **3.4 Business development service (BDS) industry**

- Establishment of BDS provider network;
- Increased demand for BDS services;

- Improved contents of services and service delivery standards.

### **3.5 Institutional level**

- Establishment of business linkages centre/facility; and
- Development of local know-how on programme implementation.

## **4. PROGRAMME DESCRIPTION**

A ‘demand-driven’ business linkage programme that includes:

- The creation and deepening of sustainable business linkages between TNCs and local SMEs;
- Capacity upgrade of SMEs;
- Development of BDS providers, including coaching and mentoring to support the implementation of business linkage deals; and
- Forming a network of service providers that can support linkages, especially BDS providers.

### **4.1 Summary of key stages of a business linkages programme**

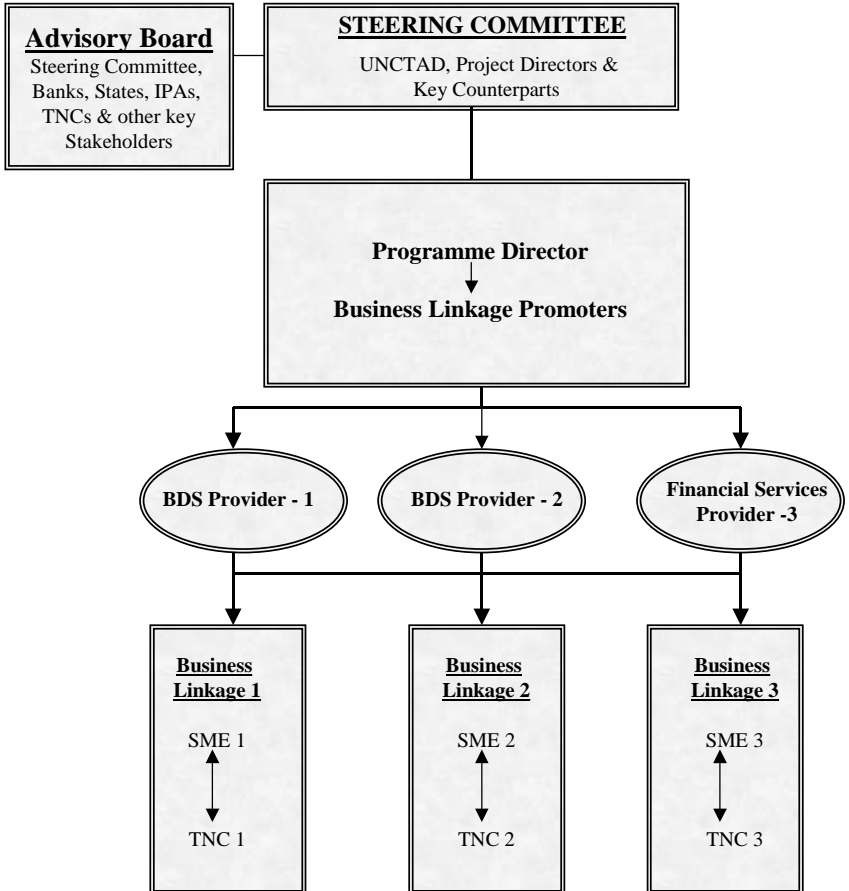
- Key stakeholders agree on draft concept paper, including overall division of roles and responsibilities;



- Form a core group that would lead the initiative and later invite other members to form an advisory board;
- Finalize the concept paper and allocate detailed roles and responsibilities to various parties;
- Agree on an implementation mechanism (new project, under an existing project);
- Form alliances with lead TNCs affiliates that can take part in the early stages of the initiative;
- Develop the project document;
- Implementation mechanisms;
- Identify and secure funding;
- Draw up project work plan;
- Establish timetable;
- Develop implementation plan;
- Monitor and quality control; and
- Document and disseminate results; and
- Share experiences with other programmes.

## 4.2 Institutional Structure

*Diagram 1: Institutional setup*



The Programme Director will play a critical role in the success of the programme as s/he will be responsible for initiating business linkages and administration of the programme. The Director is accountable to the Steering Committee for the establishment of business linkages and corporate social responsibility (CSR) dimensions in their implementation. The roster of good practices in Part III covers a wide range of good linkage activities that take into account elements of CSR.

The Steering Committee needs to be tight and cohesive in setting the strategic direction, and supportive to the Programme Director, who should be fully responsible for the execution of the project. The intervention of the Steering Committee should only take place in case of major discrepancies in achieving targets and delivery of the project.

The Advisory Board includes all key stakeholders and provides general advice and support to the project. It will not have an executive role.

### **4.3 Roles and responsibilities**

#### ***4.3.1 Project Steering Committee***

- Includes core members of the project, UNCTAD, Programme Director and key counterparts;
- Has overall responsibility for project oversight;
- Develops policies and strategies for project;
- Contacts, and markets to, senior management of foreign affiliates and senior government officials;
- Carries out project monitoring and evaluation; and

- Lobbies stakeholders to support the programme.

#### **4.3.2 *Advisory Board***

- Includes key stakeholders in the project, in addition to Steering Committee members, e.g. regional development agencies, representatives of state governments, investment promotion agencies (IPAs), and other relevant entities;
- Is informed of the project's progress, provides general advice to the Steering Committee on orientation of the project;
- Members should include individuals identifying themselves with the project and willing to carry it beyond the project's initial funding; and
- Provides general support to the project.

#### **4.3.3 *Programme Director***

- Assists in identifying potential linkages; oversees their implementation through provision of technical business services and assistance that will make SMEs competitive and linkage-ready.
- Assists in building networks relevant to business linkages.
- Follows-up with linkage activities on a day-to-day basis and continuously learns from, and documents, progress.
- Acts as the link between the Steering Committee and the Advisory Board, and provides overall supervision to the Business Linkages Promoters.

- Shares its experience with other BDS providers at the end of the programme.

#### **4.3.4 TNCs**

- Promote linkages, partnerships, and encourage programmes that support the creation of small- and medium-sized enterprises;
- Provide input towards creating an enabling business environment;
- Communicate information on activities related to partnerships and enterprise creation particularly projects proposals and databases;
- Share with partners relevant information on future plans and medium-term strategy and needs;
- Support their partners in areas such as strategic and business planning, internal management procedures, project evaluation, management information systems, training and technical assistance;
- Facilitate access to finance;
- Provide access to the company markets;
- Transfer relevant technology in the context of specific supply agreements;
- Respect the confidentiality of their business dealings;
- Encourage synergies, networks and clustering amongst SMEs and promote business associations memberships;
- Provide feedback, coaching and mentoring to business partner leaders;

- Promote and apply best practices in business linkages, including monitoring and evaluating tools and partnership methodologies;
- Assist in identifying the upgrading needs of SMEs;
- Identify one focal point/individual within the TNC to be the direct counterpoint for the project, considering that the project is geared towards the supply chain and operations side of the TNC.

#### **4.3.5 SMEs**

- Compliance with accepted commitments, business rules, quality and skills norms, specifications for the supply of goods and services;
- Adoption of work practices in compliance with contract requirements, particularly with respect to transparency and visibility of their operations;
- Identify constraints in meeting linkage requirements;
- Agreement to upgrade production, mode of operation and management whenever necessary;
- Permanent efforts to increase their capacity with regard to management, operation, etc.
- Respect of the confidentiality of the partnership agreements and related activities.

#### **4.3.6 BDS Providers**

- Working with the TNCs, BDS providers shall develop a range of business services to upgrade SMEs so that they meet the standards required by the business linkage deals;

- Identify areas where support is required to offer linkage specific BDS.

#### ***4.3.7 Government/Ministries (regional governments, social welfare, economy, SME)***

- Establish a conducive business environment for SME development, especially with regard to access to capital and R&D;
- Provide incentives and tax exemptions;
- Encourage and/or support the development of BDS providers;
- Effective policies: encourage foreign direct investment (FDI), local supplier development;
- Rules and regulations: remove obstacles and impediments;
- Good infrastructure: access/transportation, IT capability;
- Robust educational system, develop skills, especially entrepreneurial skills, through training.

#### ***4.3.8 Investment Promotion Agency***

- Provides policy analysis and advices on creation of a favourable business environment for business linkages between TNCs and SMEs;
- Backstops the project structure in concluding business contracts between SMEs and TNCs;
- Publishes results to help attract quality FDI.

#### **4.3.9 UNCTAD**

- Advises on the right policy environment for business linkages based on the analysis of international experience and best practices;
- Provides expertise and experience from successful business linkage cases in other countries;
- Promotes and initiates the business linkages promotion project, based on the adopted approach on business linkage promotion;
- Helps mobilize programme funding;
- Provides technical expertise and monitors implementation;
- Assures quality control of programme;
- Raises awareness of global best practices;
- Disseminates experiences in international investment, trade and enterprise fora;
- Makes available the programme methodology to its Empretec and WAIPA networks.

#### **4.3.10 Banks**

- Develops SME financing tools;
- Provides logistical support in the region.

### **5. DEVELOPMENT OBJECTIVE**

The objective is to promote economic and social development by enhancing local productive capacity and the efficiency of the domestic enterprise sector through the creation and deepening of fair and sustainable business linkages between



foreign affiliates and local SMEs, thereby allowing SMEs to be competitive, increase employment opportunities and generate more income.

## **6. IMMEDIATE OBJECTIVES, RESULTS AND ACTIVITIES**

***Immediate objective one:*** Improve the policy environment in which the private sector operates to enable the creation of linkages between foreign affiliates and SMEs.

***Result:*** Policy improvement recommendations prepared for government consideration and approval.

### ***Activities:***

- 1.1 Review existing policies and strategies to strengthen the enabling business framework for linkages;
- 1.2 Formulate recommendations on policy improvements and incentives, particularly fiscal incentives, for training and skill development;
- 1.3 Discuss with principal stakeholders, including government, to secure agreement and commitment on implementation of recommendations on policy changes;
- 1.4 Publish recommendations and use results in attracting FDI;
- 1.5 Pursue adoption of policy framework through advocacy and lobbying.

***Immediate objective two:*** Motivate, through linkage promoters, foreign affiliates to establish more and deeper sustainable business linkages.

**Result:** x number of foreign affiliates signed up for the linkage programme and x number of linkage promoters assigned.

**Activities:**

- 2.1 Motivate foreign affiliates to commit and participate in the Programme;
- 2.2 Conduct business linkages scoping surveys in different member States to serve as a basis for the elaboration of the business linkage plan;
- 2.3 Gain knowledge of TNCs supply chains, fine-tune methodology on brokering business linkages;
- 2.4 Meet with foreign affiliates and potential SME partners to identify needs and obstacles;
- 2.5 Sign up a number of foreign affiliates for the linkage programme;
- 2.6 Establish business linkages;
- 2.7 Assign managers as ‘Linkage Promoters’ to assist SME partners;
- 2.8 Give production/servicing opportunities to SME partners on a limited basis initially, gradually intensifying them to allow SMEs to develop capabilities;
- 2.9 Provide feedback to SME partners in terms of their meeting the foreign affiliates standards of production and management;
- 2.10 Assess progress together with the SME partner;
- 2.11 Involve SMEs partners in a process of continuous refinement and improvement;
- 2.12 Share market information and strategy so that the SME partners can pre-position themselves and get ready for changes ahead;

- 2.13 Provide SMEs partners with additional business opportunities;
- 2.14 Encourage SME partners to diversify their customer base;

***Immediate objective three:*** Upgrade SMEs to meet foreign affiliate requirements, benefiting from their coaching and mentoring programmes, and the strengthened capacity of local BDS providers.

***Result:*** x number of SMEs engaged in business linkage deals and benefiting from direct and continuous upgrading of their business and management skills.

***Activities:***

- 3.1 Provide training to the staff of BDS providers to develop a general knowledge of best practices in business linkages;
- 3.2 Adapt/develop core competency courses for SME partners so that they can function effectively in a large corporate environment.
- 3.3 Assist TNCs in the identification of suitable SMEs according to the requirements of the linkage deals;
- 3.4 Conduct SME needs and constraints diagnostic for entering into linkages with TNCs;
- 3.5 Assist SME partners in the formulation of business plans, spelling out a road map to meet the requirements of foreign affiliates;
- 3.6 Assist SMEs in the implementation of their business plans in close liaison with relevant foreign affiliates,

- including provision of business development services to remedy weaknesses;<sup>2</sup>
- 3.7 Provide basic individual consultancy services to check and remedy any management or technical deficiencies;
  - 3.8 Remedy production and process related deficiencies with the assistance of industry specialists, international experts and staff from the foreign affiliates themselves, who would play intensive mentoring and coaching roles.

***Immediate objective four:*** Analyse and identify the most effective means for establishing business linkages between foreign affiliates and SMEs and distribute best practices locally and internationally.

***Result:*** Documentation and guidelines published on best practices in forging business linkages in order to share the acquired knowledge.

***Activities:***

- 4.1 Identify, study, analyse and evaluate most effective means in strengthening and establishing business linkages;
- 4.2 Collect and disseminate information on best linkage practices nationally and internationally;

---

<sup>2</sup> These could include seminars for upgrading the level of participants in terms of entrepreneurial skills, self-motivation, commitment and openness to change, e.g. based on UNCTAD's EMPRETEC methodology;

- 4.3 Secure foreign affiliates' commitment to the business linkage business programme through workshops and individualized meetings;
- 4.4 Include business linkage information in investor targeting material;
- 4.5 Document key lessons and experiences for dissemination;
- 4.6 Develop 'linkage dossier' for each linkage the project promoted, which includes key information on establishing linkages.

***Immediate objective five:*** Establish institutional and BDS structure to carry the project beyond the initial funding period.

***Result:*** Local institutional capacity created and developed, established network of dynamic partners in place.

***Activities:***

- 5.1 Identify BDS providers and form network;
- 5.2 Upgrade BDS providers;
- 5.3 Identify institutions willing and capable of assisting with project implementation;
- 5.4 Support institutional capacity-building.

**6.1 Means of verification and indicators**

The following indicators will be verified by reports (e.g. monthly) and surveys (e.g. of the beneficiaries).

- Result 1: Prepared documentation submitted to Government and x number of foreign affiliates signed up for the linkage programme.
- Result 2: x number of TNCs committed to the programme and x number of "Linkage Promoters" assigned and trained
- Result 3: x number of business linkages established or deepened.
- Result 4: Documentation on best practices published.

In addition to fulfilling all standard reporting, monitoring and evaluation requirements, the Programme Director will produce biannual programme reports for presentation and discussion by the supervisory board of the programme, as well as a final programme report for consideration at the end of the programme period.

## 7. PROGRAMME EXECUTION SCHEDULE

		MONTH			
	<b>ACTIVITIES</b>				
<b>1</b>	<b>Improve the business environment for linkages</b>				
1.1	Review existing policies and strategies				
1.2	Formulate recommendations on policy improvements and incentives				
1.3	Discuss with principal stakeholders to secure commitment on implementation of recommendations				
1.4	Publish recommendations and use results in attracting FDI				
1.5	Pursue adoption of policy framework through advocacy and lobbying				
<b>2</b>	<b>Motivate, through linkage promoters, foreign affiliates to establish new/ deeper business linkages</b>				
2.1	Motivate foreign affiliates				
2.2	Conduct linkage scoping surveys in different regions serving as a basis for linkage plan				
2.3	Build understanding of TNCs supply chains, fine-tune methodology on brokering business linkages				
2.4	Meeting with TNCs and SMEs to identify needs and obstacles				
2.5	Establish business linkages				
2.6	Assign managers as linkage promoters to assist SMEs				
2.7	Give production servicing opportunities to SMEs				
2.8	Provide feedback to SME partners				
2.9	Assess progress together with SMEs				
2.10	Involve SMEs in a process of continuous improvement				

2.11	TNC share market information and strategy with SMEs				
2.12	Provide SMEs with additional business opportunities				
2.13	Encourage SME partners to diversify their customer base				
<b>3</b>	<b>Strengthen the capacity of local BDS providers to upgrade SMEs</b>				
3.1	Provide training to staff from BDS providers on business linkages				
3.2	Adapt develop core competency courses for SME partners				
3.3	Assist TNCs in indemnification of suitable SMEs				
3.4	Assist SMEs in the formulation of their linkage plans				
3.5	Assist SMEs in the implementation of linkage plans				
3.6	Provide basic individual consultancy				
3.7	Remedy production and process related deficiencies				
<b>4</b>	<b>Share best practices in business linkages</b>				
4.1	Identify most effective means in establishing business linkages				
4.2	Disseminate information on best practices nationally and internationally				
4.3	Secure foreign affiliates' commitment to the business linkage project				
4.4	Include business linkage information in investor targeting material				
4.5	Document key lessons and experiences for dissemination				





### **III. ROSTER OF GOOD PRACTICES**

#### **1. INTRODUCTION**

This roster of good practices recognizes the positive impact that transnational corporations (TNCs) have in the countries in which they operate. It also gauges the potential contribution they can make to the development of a competitive private sector of these countries by promoting business linkages between their affiliates and small- and medium-sized enterprises (SMEs).

Experience shows that business linkages can offer substantial mutually beneficial ‘win-win’ opportunities to those foreign affiliates and domestic firms that create and deepen their linkages activities.

Foreign affiliates benefit from linkages with domestic firms as they can reduce costs, enhance access to local tangible and intangible assets, increase their specialization and flexibility and adapt technologies and products better and faster to local conditions; and can assist in obtaining a local ‘footing’.

TNC-SME business linkages can be one of the fastest and most effective ways of upgrading domestic enterprises, facilitating the transfer of technology, knowledge and skills, improving business and management practices, and facilitating access to finance and markets. Strong linkages can promote production efficiency, productivity growth, technological and managerial capabilities and market diversification in local firms.

The ability of linkage activities of foreign affiliates' to contribute to domestic supplier development depends, to a large extent, on the capability of domestic markets and local firms. However, government interventions are essential to create an environment conducive to sustainable business linkages, through policies and regulations that support the mutual interests of both foreign affiliates and domestic firms.

Experience shows that public-private sector dialogue and partnership is important in helping domestic enterprises integrate into the supply chains of foreign affiliates. It also shows that special care must be taken when drawing lessons from the experiences of different countries as a certain strategy may only work in a specific context, making it difficult to transpose it to a different setting.

This compilation brings together concrete ways in which linkages can be created and developed. It is meant to be a checklist for firms to see whether they have exploited their potential for linkages.

## **2. BUSINESS LINKAGE CHARTER**

In order to engage TNCs in the programme, a Charter could be drafted that they could commit to. The following is a sample Charter that can be adapted to specific business linkage projects.

***Business Linkages Charter***

*We recognize the importance of deepening linkages between foreign affiliates and domestic enterprises in (country), as a contribution to creating competitive SMEs, more jobs and sustainable livelihoods.*

*In that spirit, we support the project '(title)' and will consider ways to contribute to it. For that purpose, we will examine, on the basis of the attached roster of good linkage practices, how we can expand linkages between our firms and domestic enterprises.*

*Date: \_\_\_\_\_*

*Signatories: \_\_\_\_\_*

**3. ROSTER OF GOOD PRACTICES**

As part of their normal business operations, many TNCs take various steps to develop linkages between their foreign affiliates and SMEs in host developing countries. Some affiliates provide assistance in a broad range of areas, others may only support specific activities. The most intense relationships are those affecting the technological status of

SMEs and their ability to meet the scale, quality and cost needs of the buyer.

Examples of good TNCs practices worldwide include, but are not limited to, the following activities:

### **3.1 Encouragement, initiation and support of linkage promoting programmes**

- Participating in programmes that support the creation of small- and medium-sized enterprises: providing policy advice on enterprise development; sharing information on projects on enterprise creation proposals and programmes; cooperating with BDS providers to upgrade SME partners; making public announcements about the needs for suppliers and related linkage requirements (i.e. on costs and quality, ability for continuous improvement, technological delivery and capabilities);
- Providing inputs in establishing a public-private sector dialogue to promote linkages: providing policy advice on an enabling business environment; cooperating with chambers of commerce, industry federations and other parties in identifying local capabilities;
- Providing an input into linkage development and strengthening: providing policy advice on linkage determinants, training, monitoring and evaluating tools and methodologies; sharing information and data on best practices on business linkages;

conducting publicity campaigns and advertising in the mass media.

### **3.2 Support of linkages activities by internal TNC systems**

- Considering nominating an in-house linkages focal point with responsibilities for encouraging the formation and deepening of linkages; tracking the linkage process;
- Looking into parent company and affiliate practices in other countries specifically to get in-house assessment of their success or profitability and operational obstacles;
- Surveying local suppliers to ascertain their views on their experience and relationship with foreign affiliates;
- Surveying existing supplier networks, both domestic and foreign, with a view to benchmarking performance, assessing efficiency and highlighting entrenched problems;
- Introducing periodic open days for SMEs and current suppliers and distributors to visit and interacting with specific sections of the affiliate, from production line to delivery systems. This provides social, professional and technical insights and can be educational for all participants;
- Sponsoring a business linkage unit (e.g. secondment of own human resources and/or in-kind support).

### **3.3 Providing funding**

- Allocating a company budget for creating or upgrading linkages;
- Setting up of a 'linkages fund' dedicated to small-scale start-up suppliers to which all foreign affiliates participating in the project contribute, this could be administered by the linkages facilitator;
- Obtaining funds from foundations of parent firms for this purpose.

### **3.4 Providing access to markets**

- Facilitating the access of SMEs to tenders and contracts;
- Committing as much as possible to allocate markets to SMEs and to accompany them during the first two years: grant them particular attention in the execution of the contract, and respecting payment terms and conditions;
- Providing information on annual purchase orders;
- Providing market information, particularly of foreign markets.

### **3.5 Facilitating access to finance**

- Acting as guarantors for suppliers taking out loans from banks;
- Introducing special credit facilities and advance payment mechanisms in support of SMEs;
- Providing advise on the information needs of capital providers;

- Providing special or favourable pricing for SME products;
- Helping cash flow of suppliers;
- Sharing costs of specific projects, leasing, establishment of funds for working capital or other suppliers needs;
- Advanced and prompt payments.

### **3.6 Providing feedback, coaching and mentoring**

- Ensuring regular evaluation of supply chain management; conducting supplier visits and quality audits;
- Considering the use of local know-how to find solutions to supply-chain problems;
- Creating feedback mechanisms offering small suppliers an opportunity to air their grievances, constraints and problems.

### **3.7 Fostering human development**

- Conducting training sessions with suppliers and distributors on quality control, the importance of international standards in producing for export, management practices or identifying corrupt practices;
- Offering domestic SMEs access to internal training programmes in affiliates or abroad;
- Sending teams of experts to SME partners to provide in-plant training;
- Providing initial and continuous training of suppliers;



- Introducing programmes for apprentices;
- Conducting literacy programmes for workers outside working hours: workers who can read and write are more productive for the company.

### **3.8 Contribution to technology transfer**

#### ***3.8.1 In the area of product technology:***

- Making available product-related technology and design specification to help suppliers meet specifications; provide ‘specification sheets’ to which every procured produce must conform; advice and technical assistance to meet such requirements can be provided by the foreign affiliate in making relevant information and technology available and inspection and audit of conformity requirements; collaboration in R&D; provision of proprietary know-how;
- Offering advice, training or financial support to suppliers to upgrade supplier products and operations through the transfer of product technology, such as product know-how, design and manufacturing details, technical consultations on new technologies and feedback on product performance;
- Providing computer training and facilities for outsourcing, inventory management, etc;
- Upgrading supplier capacity by donating computers and providing basic training in software applications related to specific company operations

together with enabling access to relevant operations (e.g. inventory database).

■

**3.8.2 *In the area of process technology:***

- Transferring machine-embodied process technology by providing machinery/equipment to local SMEs;
- Technical support on production planning, quality management, inspection and testing to improve SME manufacturing processes, quality control, and methods;
- Visiting premises of SMEs to advise on factory layout, installing machinery, production planning and resolving production problems.

**3.8.3 *Organization and managerial know-how:***

- Assisting with inventory management and the use of just-in-time and other systems to enable SMEs to meet continuous supply needs of foreign affiliates;
- Assisting in implementing quality assurance systems, including ISO certification.

**3.9 Support of clustering, networking and other forms of cooperation**

- Promoting local presence through cluster-focused sub-contracting promotion programmes that disseminate information on infrastructure and financial facilities, combined with international seminars to attract potential foreign and domestic suppliers;

- Forming cooperation clubs to strengthen local supplier capabilities (e.g. in the car industry) through group activities geared to disseminating information and know-how on the affiliates' production systems, quality control mechanisms, cost efficiency, quality assurance and delivery;
- Encouraging SME partners to join business associations, and participate in fairs and facilitate networking.

### **3.10 Encouragement of seeding**

- Encouraging in-house employees to set up their own small supply business for which their acquired knowledge on production, process management and quality and delivery needs would be valuable. Initial financial, technical and loan guarantee support could be provided by the affiliate for start up activities.

### **3.11 Support of Exporters**

- Providing training and technological upgrading to meet requirements for export-oriented activities (in terms of standards for production, quality, packaging and delivery) as an incentive to improve efficiency, diversify production and generally familiarize suppliers with growth potential, to ultimately enabling them to become global suppliers.

### **3.12 Support of gender balance**

- Introducing gender-awareness company policies, such as in-house or adjunct child-minding units to ease the burden on women workers, improve their productivity, and free them for additional training. This might encourage women employees to set up local kindergartens but also create basic supply units, depending on the nature of the foreign affiliate.

### **3.13 Support of agricultural producers**

- Collaborating with other foreign affiliates together with domestic/local research institutes to develop new crop varieties, agricultural implements and cropping patterns to raise productivity.
- Introducing contract farming to plant and deliver crops for food processing firm, which would provide seed inputs, information on agricultural practices, crops advice and inspection. Farmers could be given the option of selling part of the contracted output on the open market.

### **3.14 Promoting linkages with non-business entities**

- Collaborating with other entities such as universities, training centres, research and technology institutes, export promotion agencies and other official or private institutions.



## **ANNEX 1: TERMS OF REFERENCE - PROJECT DIRECTOR**

### **1. BACKGROUND**

The main objective of the project is to promote durable and mutually beneficial partnerships between affiliates of transnational corporations (TNCs) and large local companies and small- and medium-sized enterprises (SMEs), so as to enhance the productive capacity, efficiency and competitiveness of the domestic private sector.

Under the overall supervision of the Steering Committee, a Project Director will be recruited to work on the implementation of the (*title*) linkages project.

### **2. THE PROJECT DIRECTOR:**

- Is a member of the Steering Committee;
- Is accountable to the Steering Committee for the performance of the project against agreed targets, and for the management of the Business Linkage Centre;
- Conducts linkage scoping surveys and interviews with TNCs to identify their existing linkage activities and future needs, and seeks to obtain their support for the project;

- Identifies SMEs that could be linked and assesses their needs (many of the potential SMEs are likely to be identified by the respective TNCs);
- Initiates, actively facilitates and monitors business deals between TNCs and SMEs;
- Supports SMEs upgrading their enterprises to become reliable partners to the TNCs;
- Produces quarterly reports on the project to be submitted to the Steering Committee;
- Documents examples of TNC/SME linkages in the country; Creates 'linkage dossiers' on each linkage supported;
- Shares experiences with other donors, stakeholders and UNCTAD on the progress of the project and its successes;
- Selects a range of linkage opportunities on which the project should focus;
- Manages the administration, finance, and HR functions of the Business Linkage Unit;
- Supervises activities of the team of linkage promoters, provides feedback, mentoring and coaching.

### **3. CORE COMPETENCIES OF THE IDEAL CANDIDATE**

- Experience of working in TNCs or with TNCs in supply chains, distributorships and/or commercial areas, or in financial services such as banking;
- Experience in setting up business linkages and a good understanding of the operations of foreign affiliates in developing countries and SMEs;
- Experience with BDS providers and SME upgrading.

### **4. Duration**

The contract shall run for *(xx)* months, subject to a probationary period of *(xx)* months.

### **5. Reporting**

The Project Director reports to the Steering Committee.





## **ANNEX 2: TERMS OF REFERENCE - BUSINESS LINKAGE PROMOTER**

### **1. BACKGROUND**

The main objective of the project is to promote durable and mutually beneficial partnerships between affiliates of TNCs and large local companies and SMEs, so as to enhance the productive capacity, efficiency and competitiveness of the domestic private sector.

Under the overall supervision of the Task Force, and in close collaboration with the Business Linkage Centre, a Business Linkage Promoter will be recruited to work on the implementation of the (*title*) Business Linkage project.

### **2. TASKS OF THE BUSINESS LINKAGE OFFICER:**

- Conducts surveys and interviews with TNCs to identify their existing linkage activities and future needs, and encourages their support of the project;
- Identifies SMEs that could be linked and assesses their needs. Many of the potential SMEs are expected to be identified by the respective TNCs and the pre-project conceptualization survey findings shall provide a good starting point for sourcing candidate SMEs;

- Actively brokers and monitors business deals between TNCs and SMEs;
- Facilitates SMEs in upgrading their enterprises and becoming reliable partners to TNCs;
- Produces quarterly reports on the project to be submitted to the Task Force and BLC;
- In close cooperation with the BLC, documents TNC/SME linkages experiences in the country;
- Shares experiences with other donors, stakeholders and UNCTAD on the project's progress and its successes; and
- Selects a range of opportunities on which the project should focus.

### **3. CORE COMPETENCIES OF THE IDEAL CANDIDATE**

- A strong working background in TNCs or with TNCs, particularly with respect of supply chains, distributorships and/or commercial areas. This professional background should have been acquired from his or her work experience, in business networking, delivery of services such banking, auditing, etc;

- Have experience in setting up business linkages and have a good understanding of SMEs and large companies in developing countries.

#### **4. Duration**

The contract shall run for XX months, subject to a probationary period of XX months.

#### **5. Reporting**

The Promoter shall report to the Business Advisory Board and Business Linkage Director.



## **ANNEX 3: TERMS OF REFERENCE - BUSINESS LINKAGE OFFICER**

### **1. BACKGROUND**

The main objective of the project is to promote durable and mutually beneficial partnerships between affiliates of TNCs and large local companies and SMEs, so as to enhance the productive capacity, efficiency and competitiveness of the domestic private sector.

Under the overall supervision of the Task Force, and in close collaboration with the Business Linkage Centre, a Business Linkage Officer will be recruited to work on the implementation of the Business Linkage pilot project.

### **2. TASKS OF THE BUSINESS LINKAGE OFFICER**

- Conducts survey and interviews with TNCs to identify their existing linkage activities and future needs, and encourages their support for the project;
- Identifies SMEs that could be linked and assess their needs. Many potential SMEs are expected to be identified by their respective TNCs and the pre-project conceptualization survey findings shall provide a good starting point for sourcing candidate SMEs;

- Actively brokers and monitors the business deals between TNCs and SMEs;
- Facilitates SMEs in upgrading their enterprises and becoming reliable partners to the TNCs;
- Produces quarterly reports on the project to be submitted to the Task Force and BLC;
- In close cooperation with the BLC, documents TNC/SME linkages experiences in the country;
- Shares experiences with other donors, stakeholders and UNCTAD on the progress of the project and its successes; and
- Selects a range of opportunities on which the project should focus.

### **3. CORE COMPETENCIES OF THE IDEAL CANDIDATE**

- The ideal candidate should have a working background in TNCs or with TNCs, particularly with respect to supply chains, distributorships and/or commercial area. This professional background should have been acquired from his or her work experience, in business networking, delivery of services such banking, auditing, etc;

- Experience in setting up business linkages with good understanding of SMEs and large companies in developing countries.

#### **4. Duration**

The contract shall run for XX months, subject to a probationary period of XX months.

#### **5. Reporting**

The Officer shall report to the Business Advisory Board and Consultancy Services Manager.