

**Expert Meeting on Assessing the Impact of Public-Private
Partnerships on Trade and Development in
Developing Countries**

**Public-Private Sector Partnerships to Promote SME
Participation in Global Value Chains**

26 March 2013
Geneva

**By
James Zhan
Director
Division on Investment and Enterprise
UNCTAD**

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

Chair, Excellency's, Distinguished Experts and Delegates:

It is my pleasure to address the Expert Meeting on Assessing the Impact of Public-Private Sector Partnerships on Trade and Development. This Meeting will focus, in particular, on ways in which collaboration and partnership between the public and private sectors can promote small business participation in global value chains.

Indeed, there has been increasing attention given to the role that cooperation between the public and private sectors can play in facilitating small and medium-sized enterprises (SMEs) in developing countries to gain access to and benefit from the global value chains (GVCs).

Against this background, I would like to highlight three sets of issues:

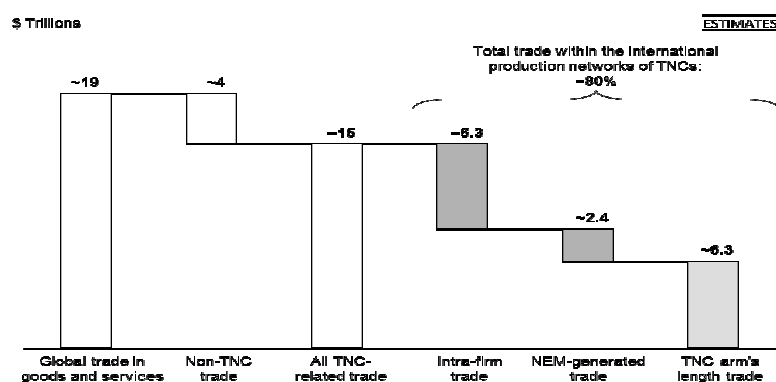
1. The opportunities provided by GVCs for developing country business and their potential impact on development;
2. The different modes of partnership between public and private actors and how they can strengthen the productive capacity and international competitiveness of SMEs;
3. Ways to support developing countries to benefit from GVC participation.

1. GVCs: opportunities and development impact

As we can see in the graph (figure 1), global investment and trade are inextricably intertwined through the international production networks of firms: they invest in productive assets worldwide and trade inputs and outputs in cross-border value chains of various degrees of complexity. In total, we estimate that 80% of global trade takes place within value chains linked to TNCs.

Figure 1

Global trade (exports of goods and services), by type, 2010



Source: UNCTAD estimates, based on WIR12 (table I.8); BEA; EFIGE; Altomonte et al. 2012.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT



Developing countries, including the poorest economies, are increasingly participating in this growing network of GVCs. The developing country share in global value added trade increased from 20% in 1990 to 30% in 2000 and to over 40% today. This increasing share highlights the growing links between developing countries' domestic economies and the global economy, and suggests that GVCs play an important role in economic growth.

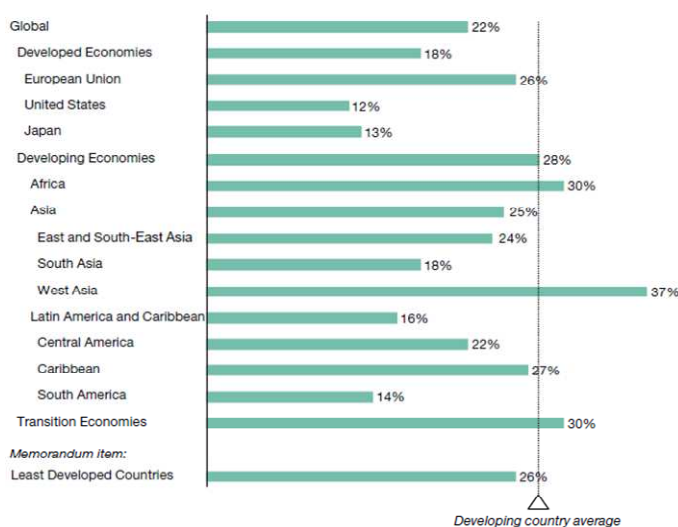
Figure 2



Domestic value added created from GVC trade can be very significant relative to the size of local economies. In developing countries, value added trade contributes some 28% to countries' GDP on average, as compared with 18% for developed countries. Furthermore, there appears to be a positive correlation between participation in GVCs and GDP per capita growth rates. Economies with the fastest growing GVC participation have GDP per capita growth rates some two percentage points above the average.

Figure 3

Domestic value added in trade as a share of GDP, by region, 2010



Source: UNCTAD-Eora GVC Database, 2013.

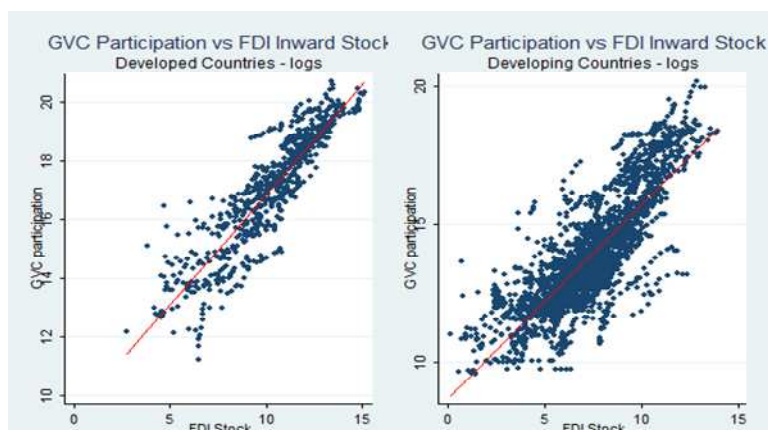


Another major finding in our research on GVCs is that countries with a higher presence of FDI relative to the size of their economies tend to have a higher level of participation in GVCs. They also have a greater relative share in global value added trade compared to their share in global exports. Again, the role of TNCs is instrumental here. GVCs therefore have the potential to provide local SMEs in developing countries with opportunities to link into tasks and activities both upstream and downstream in the value chain.

Figure 4

FDI helps countries increase participation in GVCs but the presence of TNCs that participate in GVCs does not guarantee participation of local SMEs

Relationship between GVC participation and FDI inward stock, 189 countries over 20 years



However, it is important to note that the presence of highly internationalized foreign firms does not guarantee the participation of local business in GVCs, nor the potential development benefits from such participation, such as the greater participation of women, who still face considerable barriers in a number of value chains, including agriculture. Ensuring greater participation will depend on the capacities of local firms, and on the infrastructure, technology, skills and know-how, and policy environment of the local economy.

This brings me to the second issue: facilitating SME participation in GVCs through greater collaboration between the public and private sectors.

2. Modes of partnership between public and private actors to strengthen SME capacity and competitiveness

TNCs constantly demand SME suppliers to improve quality, delivery and adaptation of products and services. Yet, local firms are often unable to respond to such demands due to supply capacity constraints. These constraints include lack of financial resources, entrepreneurial and managerial skills, trained workers, marketing, product and price barriers, distribution and logistics barriers. Moreover, these constraints often apply differentially to women who may suffer more acute difficulties, for example, accessing finance - as the issues paper for this meeting highlights. SMEs therefore often have limited capacity to engage effectively in an international production network. Increased collaboration and partnerships between the public and private sectors may offer a way of addressing these challenges as well as better integrating SMEs into GVCs.

The term public-private partnership refers to a specific legal and operational venture, but here, we are examining wider collaborative arrangements between public, private, and not-for-profit institutions. Originally focused primarily on infrastructure projects, recent years have seen a rising interest by developing countries and the international community in a much broader notion of public-private sector collaboration, in terms of its sectoral coverage and participation. This trend is illustrated by the "Joint Statement on Expanding and Enhancing Public-Private Cooperation", agreed at the 2011 High-Level Forum on Aid Effectiveness in Busan, and by various bilateral and multilateral donor initiatives, and research by leading universities.

Partnerships may operate in one sector under the flag of government mandates, while activities in another sector may be identified with corporate social responsibility or donor funded programmes. These categories are particularly relevant from a policy perspective, when there is a need to identify the objectives, beneficiaries and stakeholders of these kinds of partnerships, and eventually the types of incentives to be introduced to stimulate them.

- **Public sector-led partnership:** Many partnerships are complex, involving participation by developing country governments, private sector actors from both developed and developing countries, research institutions and private sector

associations. They are often governed by multi-stakeholder structures, such as steering committees. Embrapa, Brazil's leading public agricultural research institute, is one example of a government agency working closely with private actors. It establishes partnerships with TNCs for the joint R&D of new technologies, which are then made available for broader local SME use; it licenses proprietary agricultural technologies from firms such as BASF and Monsanto to incorporate them into its own products; and licenses its own technologies to be commercialized abroad.

- **Donor-led partnership:** In most cases, donors have a specific programme or fund that provides co-finance and risk-sharing for private sector initiatives that are perceived as entailing a high level of commercial risk, but could potentially result in positive development outcomes. It is worth noting, however, that many of these initiatives are tied to participation by donor country firms.
- **Company-led partnership:** In some instances partnerships are also initiated by TNCs themselves, for example to reduce local procurement costs or implement supplier development programmes.
- **NGO-led partnership:** partnerships to promote local value-addition and development may also initially be launched by non-governmental actors. They have proactively sought out TNCs and public sector institutions to partner on development interventions. For instance, in early 2009, the Bill & Melinda Gates Foundation approached Coca-Cola Company with a market assessment showing a clear business case for developing local supplies of mango and passion fruit in Kenya and Uganda. In total, the project has trained hundreds of government extension workers and reached more than 50,000 small farmers.

All these types of partnerships led by different stakeholders can help address the supply constraints of SMEs in developing countries and facilitate their access to and benefit from GVCs.

3. Supporting developing countries to benefit from GVC participation

Another challenge for developing country SMEs in global value chains is to secure the traceability of their inputs and comply with global standards and practices. The past decade has also seen the rise of an increasingly complex mix of CSR codes. Compliance with all standards, including CSR codes, presents challenges for many SME suppliers in developing countries. Such challenges include:

- The use of international standards that go beyond current regulations and common market practices in the host country;
- The existence of diverging and sometimes conflicting requirements from different TNCs;
- The capacity constraints of small suppliers in understanding and applying international standards in their day-to-day operations;

- An overload of multiple on-site inspections and complex reporting procedures;
- Consumer and civil society concerns about quality standards for products and for marketing, in addition to suppliers' existing challenges in meeting them;
- Competitiveness concerns for firms that bear the cost of fully complying with CSR standards relative to other SMEs that do not attempt to fully comply.

Countries that support their SMEs to face these challenges will better position their domestic enterprises to access and succeed in global value chains. This could be done through coordination between the public and private sectors. Policymakers for example, can support SME suppliers by mainstreaming CSR requirements into domestic enterprise development programmes and working with TNCs to harmonize standards and simplify compliance procedures.

There are many ways for leveraging partnerships to more effectively integrate SMEs into GVCs. I would like to share with you today two UNCTAD initiatives in this regard. The first initiative is the UNCTAD Entrepreneurship Policy Framework and Implementation Guideline. The Framework includes 6 key components: 1) formulating entrepreneurship strategies, 2) optimizing regulatory environment, 3) enhancing entrepreneurship education and skill development, 4) facilitating technology exchanges and innovation, 5) improving access to finance, and 6) promoting networking and awareness. The Framework aims to support developing-country policymakers in the design of initiatives, measures and institutions to promote entrepreneurship, and the greater participation of women entrepreneurs. While cautioning that one size does not fit all, it suggests policy options and recommended actions in priority policy areas that have a direct impact on entrepreneurial activity. It proposes checklists, good practices and case studies. It also features a user guide, a step-by-step approach to developing entrepreneurship policy, and a set of indicators to measure progress.

Another UNCTAD initiative is the Business Linkages Programme, implemented in collaboration with UNCTAD's Empretec network to promote entrepreneurship and SME upgrading. Established in 2005, the Business Linkages Programme aims to: stimulate a conducive policy environment for business linkages, meet the real needs of TNCs by making SMEs "partnership-ready" (Empretec), and make the programme sustainable through empowering national partner institutions. The Programme has expanded to nine countries today: Brazil, Uganda, Vietnam, Argentina, Mozambique, Peru, Zambia, Tanzania, and the Dominican Republic. Current business linkages projects include several sectors, automotive industry, agribusiness, mining, telecommunications, and tourism.

For example, UNCTAD in Uganda collaborated with the Government of Sweden, Enterprise Uganda, the Ugandan Investment Authority, and UNDP on its business linkages project among companies in the telecommunications, automotive and agribusiness industries. As a result, in 2006-2008, SMEs participating in the project grew by up to 460%, employment increased by 100% and productive efficiency improved by 25%. Furthermore, due to their

improved business skills, more than 2,500 rural SMEs were able to transform their farming activity from subsistence farming to real businesses.

In North-East Brazil, UNCTAD partnered with the German Development Corporation (GTZ), and SME support institutions at the state level (SEBRAE, SENAI, SESI and IEL) and Banco do Nordeste to create business linkages in the metal industry, naval and offshore industry, power industry and construction among others. For example, in Pernambuco, there was a significant improvement among the participating SMEs in areas identified by the purchasing TNCs, such as quality management and CSR compliance. They doubled their sales and increased employment by 5% in nine months. This programme is of course only one of the many partnership models in the field. We hope that this expert meeting and the discussion would touch upon other models and best practices in public and private sector collaboration that effectively integrate SMEs into GVCs.

Chair,

Allow me to conclude my speech by making an important remark. GVCs can be an important avenue for developing countries to build productive capacity and enhance international competitiveness, as well as increase the participation of women in the domestic and global economies. In particular, GVCs can enable SMEs to improve productivity and access to international markets. However, such potential benefits from GVCs are not automatic. Partnerships among the development stakeholders matter. Furthermore, we need to bear in mind that while GVCs can contribute to employment generation and open up opportunities for longer-term industrial upgrading, they can also pose risks for developing countries, such as social and environmental impacts, lock-in effects and foot-looseness of activities. To maximize positive contributions and minimize negative impacts, policy is central, including a set of coherent and mutually reinforcing trade and investment policies, as well as the right overall development strategies.