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Learning Brief:

Industry Partnerships for Local Development

This brief is designed for policymakers working on economic development and employment programmes in low-income countries. It draws upon lessons related to firm growth and industry partnerships from the recent evaluation of the Employment and Skills for Eastern Africa (E4D/SOGA) programme.

What's the issue?

A central constraint to growth in low-income countries is that weak institutional arrangements prevent effective relationships between multinational industry and local enterprises. The majority of the urban workforce in low-income countries is self-employed and the majority of small firms are subsistence enterprises whose owners are neither interested in nor prepared for sustained growth. These firms typically operate within the scope of their local communities and tend not to interact with large multinational firms or integrate into global value chains (GVCs). Empirical evidence suggests that this informal, subsistence-based activity impedes economic growth and local employment, as it is formal jobs with consistent wages that allow the poor to reach the middle class (Banerjee & Duflo 2008). The formalisation and growth of micro-enterprises into large, exporting firms can be an important driver of economic development yet enterprises in low-income countries face a number of structural barriers that make it difficult to access and upgrade within GVCs. For an overview of these barriers see (Addison and Roe, 2018).

The literature highlights a number of reasons why access to GVCs is desirable from an economic development perspective. Firstly, connecting micro-enterprises with GVCs can help formalise their finances and grant them access to international capital markets, which is necessary as capital is essential for businesses across all countries to expand and become more productive (Cusolito, Safadi, Taglioni, 2016). Secondly, access to foreign markets increases competition and connects micro-enterprises to international industry leaders who tend to be more productive than domestic firms (Alfaro-Urena et al, 2019). This allows the most efficient firms to grow and gain from productivity and knowledge spillovers, whilst the least productive shrink or exit the market. In Egypt, connecting carpet makers to GVCs led to **profit increases of up to 26%,** as well as improved product quality and productivity gains (Atkin et al., 2017). Thirdly, access to foreign markets and international firms provides market opportunities and stability in the event of a lack of domestic demand, which can help firms grow beyond the confines of its local market conditions. In Costa Rica, firms who were able to become suppliers to multinationals **increased their sales to other buyers by an average of 20%** (Alfaro-Urena et al., 2019).

Lessons from the literature on industry partnerships and firm growth

Evidence shows that there are a number of key structural challenges that make it difficult for enterprises in low-income countries to make the transition to supply multinational companies and become integrated into GVCs.

Capital

Informal enterprises tend not to be linked to formal bank accounts and handle their day-to-day transactions mainly in cash. This prevents them from accessing loans from local banks or capital on international financial markets. Empirical evidence validates this by showing that capital-intensive sectors are underrepresented in low- and middle-income countries (Rajan & Zingalez 1998). This often prevents these enterprises from accumulating the equipment and machinery needed to upscale production to meet the needs of multinational companies.

Labour

Deficiencies in education and in the labour market architecture of low-income countries often means a lack of locally-available skilled labour. This makes it difficult for local enterprises to reach the levels of international competitiveness required to supply multinational companies.

Efficiency

In informal local markets, competition and productivity is limited. Without access to international industry leaders, local enterprises are not exposed to industry-leading standards or the competitive rigours of the international market. This means they can miss out on learning opportunities that are powerful in their capacity to widen the scope of innovation, increase productivity and improve international competitiveness.

Demand

A firm's success is limited to the demand for their goods and services. Domestic markets tend to be relatively small in low-income countries and, in any single market, demand can be subject to dramatic fluctuations. Enterprises that only supply local markets are therefore unlikely to enjoy the economies of scale required to be internationally competitive enough to supply multinational corporations.

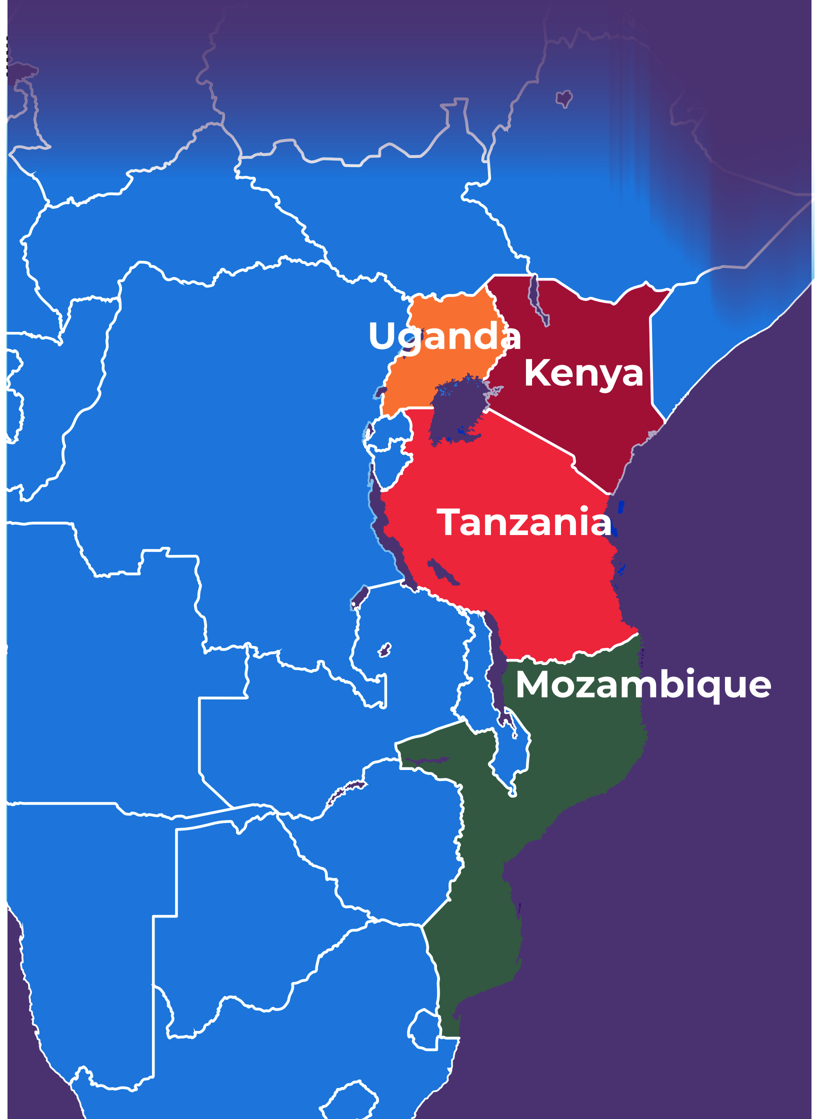
The most popular interventions seeking to overcome these barriers have been focused on improving supply-side deficiencies related to labour and capital, such as enterprise development or access to credit programs. However, the evidence from the literature regarding the success of these alone is mixed (McKenzie & Woodruff 2013). Increasing evidence points to the potential of demand-side interventions that improve the linkages between domestic enterprises and foreign buyers, which is likely to provide learning opportunities and improve the understanding of the standards required to supply multinational companies. This points to the need for supply-side skills and training interventions to be combined with efforts to improve demand conditions and facilitate better linkages between local enterprises and international industry.

Programme Approach

The E4D/SOGA employment and skills programme was an extensive five-year programme of local employment promotion, targeted skills training, **enterprise development** and job-matching services in four East African countries (Kenya, Tanzania, Mozambique, Uganda).

In each of the selected countries, there was a need to capitalise on expected imminent oil and gas investments by large multi-national firms and international oil companies.

Due to low existing levels of technical and vocational educational skills that were needed in the oil and gas sector and a lack of cohesion in labour market architecture, there was a risk that, without intervention, local people would not access the employment opportunities generated by these investments.



Programme Design

The programme was primarily a skills development intervention designed to address supply-side deficiencies in the local labour market, but it also looked to support **the growth of local firms and micro-enterprises**.

Across the four countries, the programme delivered 30 individual projects, with 20 focused on skills development for individuals and **10 focused on enterprise development for local businesses**. Three incorporated components of both.

Most projects also incorporated services to match trained individuals to jobs, and enterprises to supply chain opportunities. This was done primarily through developing and implementing **partnerships with industry**. The aim of this aspect of the programme was to 'support supply side and demand side actors into and through **public private partnerships'.**

The process of identifying and selecting partners was led by country teams, before screening at steering committee level. Cooperation agreements were put in place with selected operational partners, which formed the basis of Development Partnerships with the Private Sector (DPP).

Programme Results[1]

As of February 2019:

- **11, 248** people moved into jobs (48% of original target of 23,000
- **84.5%** average income increase (versus original target of 10%)
- **50%** of graduates obtain and maintain a job (versus original target of 70%)
- **19** public private partnerships were established across the four countries (versus original target of 12)

1 Note that there is likely to be some lag time between implementation and results. The number of people moved into jobs nearly doubled in the last year of the programme, which indicates that the long-term impact is ultimately likely to be greater than the evaluation figures suggest.

Our findings

Part of the E4D/SOGA programme's approach to promoting employment and firm growth was to link small-scale enterprises with GVCs through building and implementing partnerships with industry. The success of individual projects across the four countries in achieving this was highly variable. Based on those that were most effective, the evaluation identified a number of important findings to be considered by policy makers designing enterprise development interventions similar to E4D/SOGA in low-income countries.

Industry partnerships were crucial in the process of incorporating local enterprises into GVCs

When the E4D/SOGA programme successfully linked local enterprises to international industry, promising outcomes in terms of firm growth and employment followed, supporting the literature related to small firm growth in developing countries.

However, not all aspects of the programme managed to link local firms with GVCs to the same degree and this was seen as a missed opportunity. It became clear that where collaborative partnerships with local industry were formed, integration was achieved more successfully. If there had been a more intense focus on building quality partnerships with the private sector from the start of the programme, more local enterprises would have been supported to make the transition to supply and integrate into GVCs, which would have produced better outcomes in terms of firm growth and local employment.

Professional standards were implemented because of E4D/SOGA projects

In Uganda the programme is supporting development of curriculum for heavy goods vehicle driving, and in Mozambique an electrical maintenance curriculum has been developed. In Uganda, the driving training project successfully upskilled HGV drivers to professional standards, although it failed to achieve its targets for graduate placement rates.

Industry partnerships were crucial in designing training interventions to meet international industry standards

One of the key determinants of success in terms of supporting local enterprises to make the transition to supply and integrate into GVCs was when the programme was able to successfully upskill enterprises to meet international industry standards relevant to the extractives supply chain. In Uganda, a successful partnership was built between logistics firms and a consultancy group E360. E360 were able to teach firms health safety and environment training, provided a development course on bid management, and trained 40 SMEs in how to bid for international logistic tenders. Where effective collaborative partnerships with industry were in place, the programme was able to better understand these standards and use industry input to effectively incorporate them into the design of training offerings.

Lessons for building effective partnerships

Effective relationships take time to build

The programme found that developing and maintaining relationships with industry partners took considerable time and effort. The success of partnerships in Uganda was partly enabled by the close relationships that the country team had already established with the private sector in Uganda. There is also a chance that the sharp upturn in results towards the end of the programme can be explained by the fact that effective industry partnerships were not fully established until a few years in.

Targeting sectors that align with domestic government priorities is key for sustainability

Challenging political environments emerged as the greatest barrier to the effectiveness of partnerships. Designing projects to match sectors that broadly aligned with established government priorities was found to be a sensible way of allowing partnerships to work better in the political environment.

Partner targeting needs to be designed to adapt to changes in demand

Whilst the programme initially had a systematic approach for targeting partners in the oil and gas sector, it was unable to adapt when many of the expected oil and gas investments failed to materialise. There ended up being an overreliance on strategic oil and gas partners which was not reflective of the actual pattern of demand across the four countries. Had there been greater adaptability programmed into the approach to partner targeting from the beginning, the programme would have been able to develop effective partnerships in alternative sectors more quickly.

Further Reading

- Final Report: Independent Evaluation of the E4D/SOGA Programme
  - **Learning Brief: Skills Programmes & E4D/SOGA**
  - **Learning Brief: Promoting Impact of Natural Resource Investments & the E4D/SOGA Programme**
- *What is Middle Class about the Middle Classes around the World?*, Banerjee & Duflo, 2008, link
- *A Research Agenda for the Small and Growing Business Sector*, ANDE and the International Growth Centre , 2018, link
- *What are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?*, McKenzie & Woodruff, 2013, link
- *Financial dependence and growth*, Rajan & Zingalez, 1998, link
- *The Effects of Joining Multinational Supply Chains: New Evidence from Firm-to-Firm Linkage*, Alfaro-Urena, 2019, link
- *Exporting and Firm Performance: Evidence from a Randomized Experiment*, Atkin et al., 2017,
- *Inclusive Global Value Chains*, Cusolito, Safadi, Taglioni, 2016, link
- Extractive Industries: The management of resources as a driver of sustainable development, Addison and Roe, 2018, link