

Business Environment



Industry Policy Dialogue Phase 3 Seminar: Fostering business linkages between domestic enterprises and FDI firms in Ethiopia



Business linkage promotion

between domestic enterprises and FDI firms

- JICA's Approach -

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Private Sector Development

... is one of the JICA's wide coverage of 20 thematic issues "JICA Global Agenda"

 Urban/Regional Development	 Transportation	 Energy and Mining	 Private Sector Development	 Agricultural/Rural Development	 Health
 Improving Nutrition	 Education	 Social Security / Disability and Development	 Sport and Development	 Peacebuilding	 Governance
 Public Finance and Financial Systems	 Gender and Development	 Digital for Development	 Climate Change	 Natural Environment Conservation	 Environmental Management (JICA Clean City Initiative)
 Water Resources and Water Supply	 Disaster Risk Reduction				

4
Private Sector Development

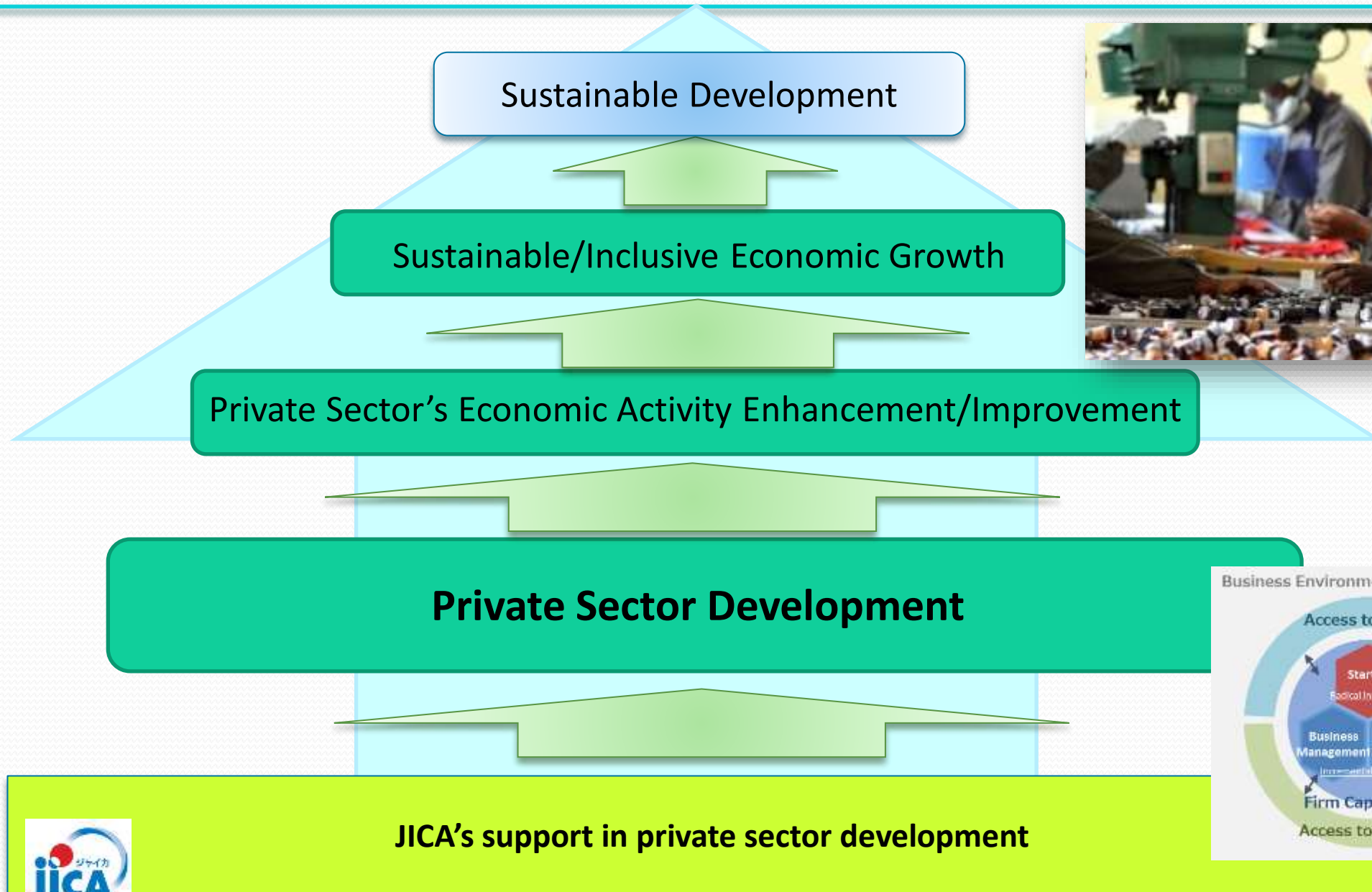
Fostering private enterprises and support economic growth in developing countries

Foster and strengthen the private sector, which raises national incomes and supports the public finances. Innovation and investment will also be promoted to achieve high quality economic growth.

We strive to improve the competitiveness of entrepreneurs and businesses, develop industrial and investment policies and business environment, and improve access to finance, etc. We will create an environment for the private sector to grow. We will also promote collaboration between local and Japanese companies, strengthen partnerships, and aim to achieve economic resilience of both countries.

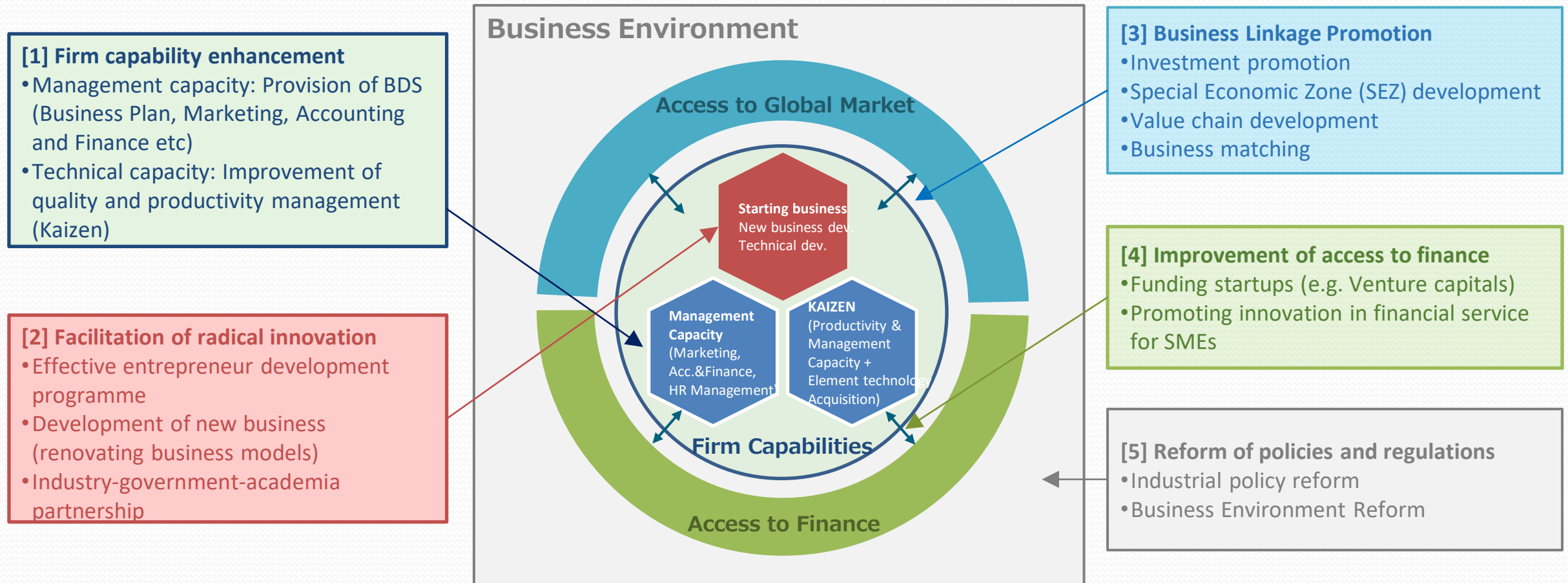
The Japan International Cooperation Agency (JICA) supports the Sustainable Development Goals (SDGs).

Private Sector Development ?



JICA's basic framework of Private Sector Development

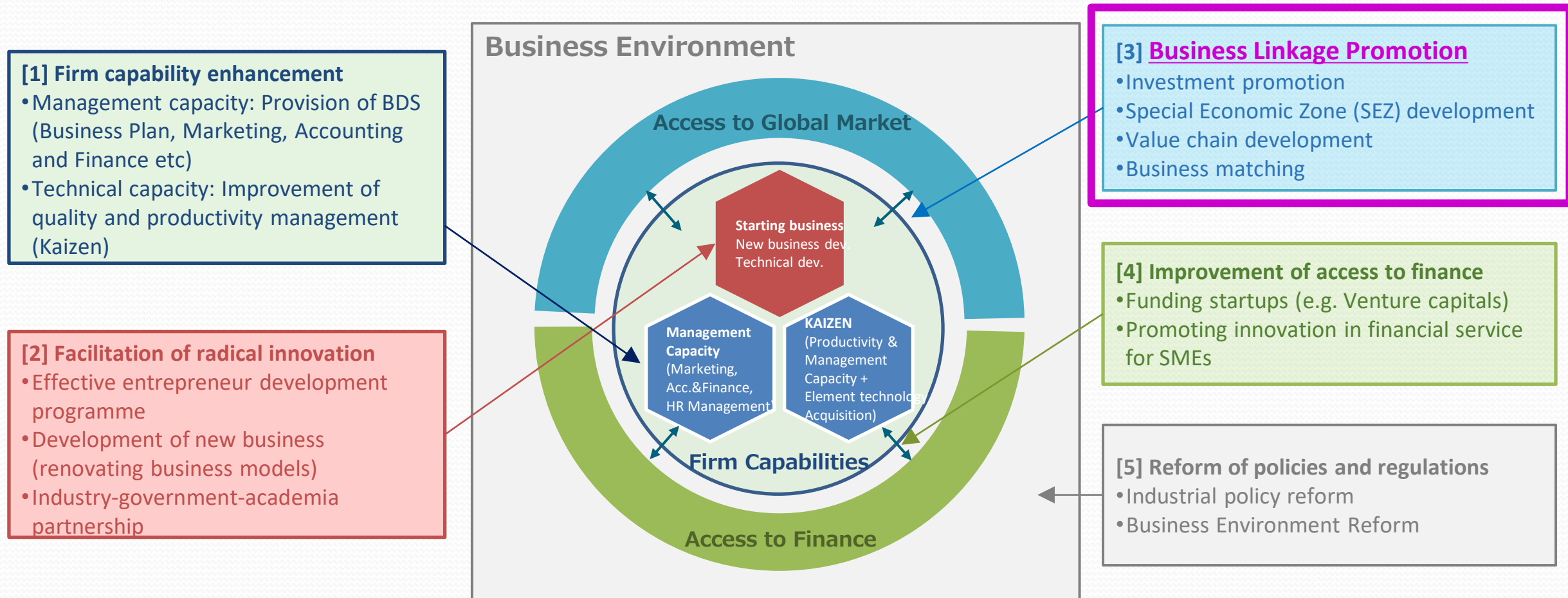
- Emphasis on enhancement of firm capabilities [1] [2], while promoting business linkages [3] including global value chain participation and improving access to finance [4], along with the support for development of policies and regulations [5].
- Leverage existing knowledge and experiences, new technologies and know-how's to promote innovative cooperation.



JICA's basic framework of Private Sector Development

- *Business linkage promotion is an important piece* -

- Emphasis on enhancement of firm capabilities [1] [2], while promoting business linkages [3] including global value chain participation and improving access to finance [4], along with the support for development of policies and regulations [5].
- Leverage existing knowledge and experiences, new technologies and know-how's to promote innovative cooperation.



JICA's 3 major pillars (clusters) in Private Sector Development

- *Creating business linkages between investment and industries* -



Africa Kaizen Initiative

Improve business competitiveness and production management through *Kaizen* (quality/productivity improvement) approach



Region-wide 10-year initiative led together with AUDA-NEPAD (2017-2027)
Annual Conferences

Support for Entrepreneurs to Create Business Innovation

Project NINJA (Next Innovation with Japan)

Support for startups which contribute to solving social challenges through innovation



Promotion of Investment and Industries in Asia

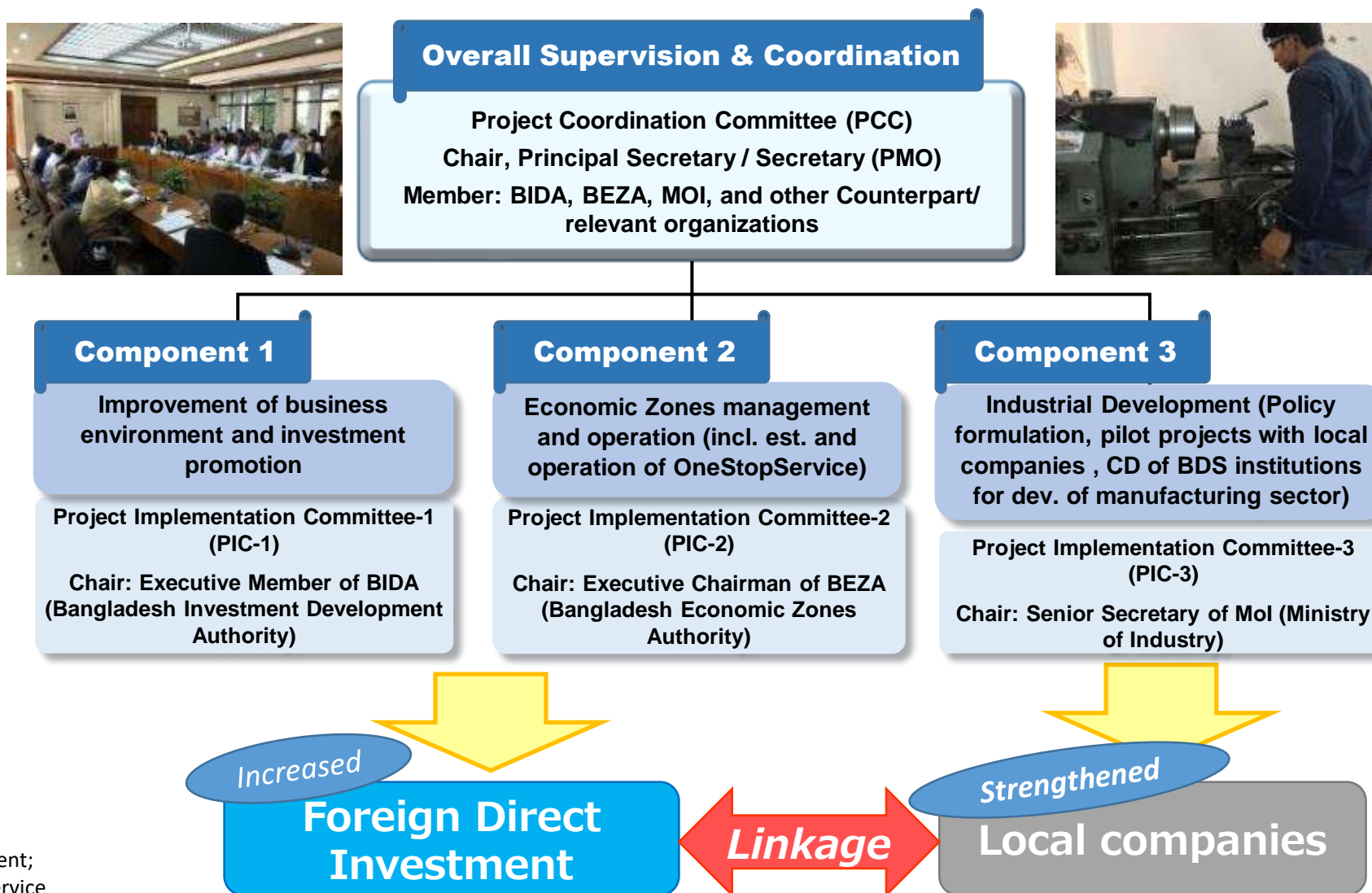
Holistic support in (i) attracting FDI through business environment reform, (ii) capacity building for local businesses through industrial development strategies, and (iii) in creating business linkages



(Case) Bangladesh Project for Promoting Investment and Enhancing Industrial Competitiveness

(Case 1) JICA BIPIC Project in Bangladesh

JICA Project for Promoting Investment and Enhancing Industrial Competitiveness in Bangladesh (BIPIC) (2017-22)

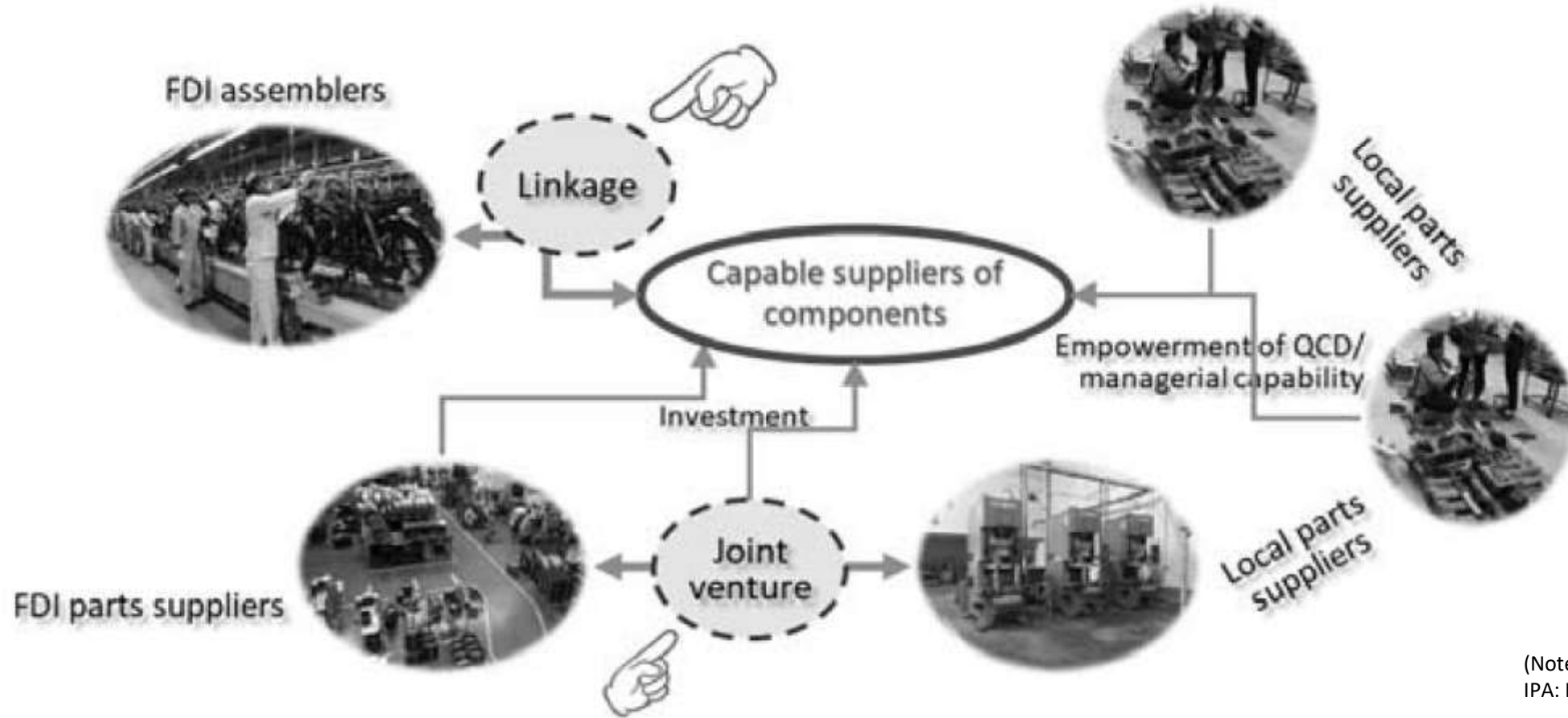


(Note) CD: Capacity Development;
 BDS: Business Development Service

Source: JICA Private Sector Development Group

(Case 1) JICA BIPIC Project in Bangladesh

JICA Project for Promoting Investment and Enhancing Industrial Competitiveness in Bangladesh (BIPIC) (2017-22)

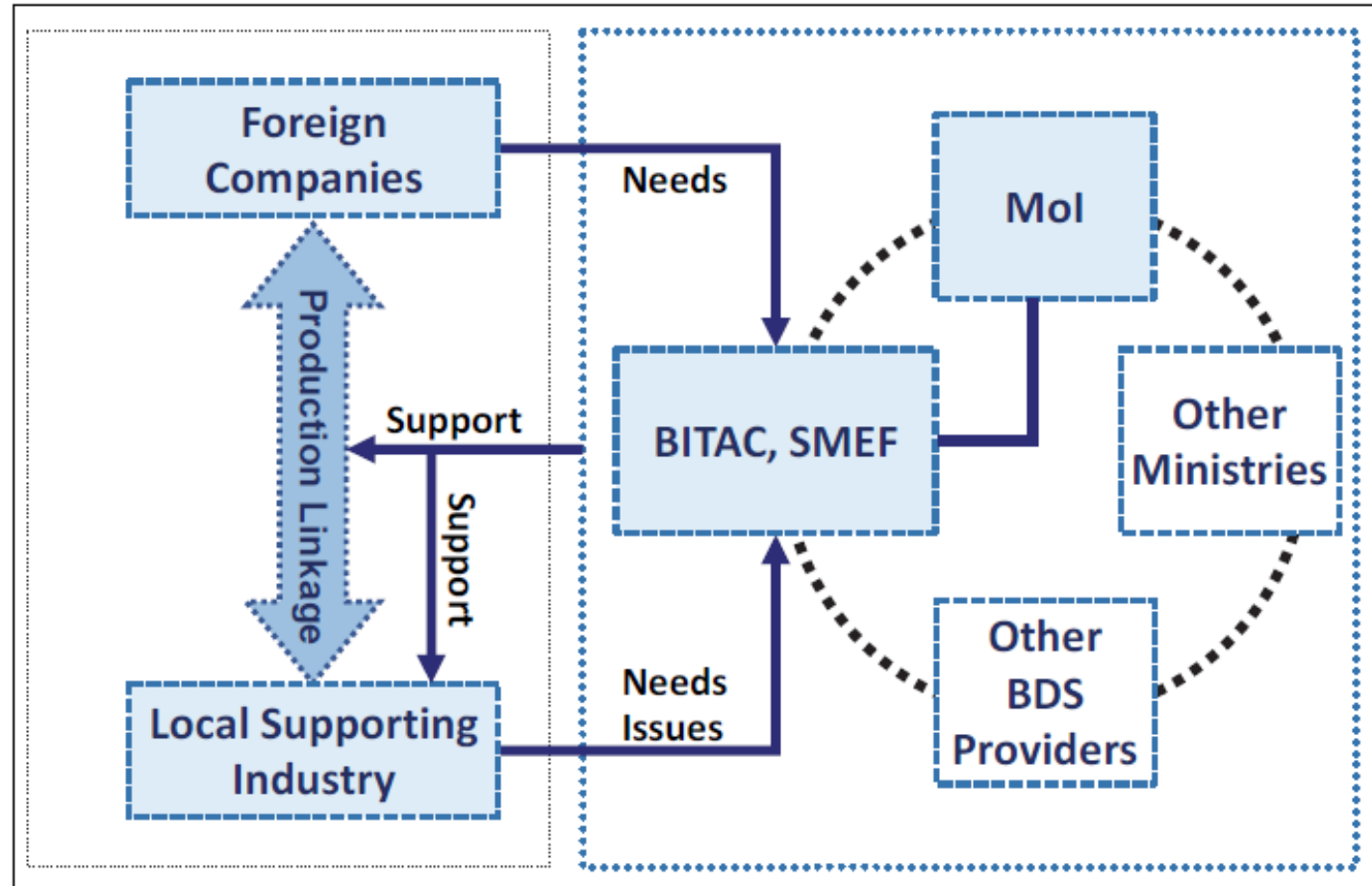


(Note)
IPA: Investment Promotion Agency

Industrial linkage/ technology transfer to be facilitated by IPA

(Case 1) JICA BIPIC Project in Bangladesh

JICA Project for Promoting Investment and Enhancing Industrial Competitiveness in Bangladesh (BIPIC) (2017-22)



Source: JICA Project Team

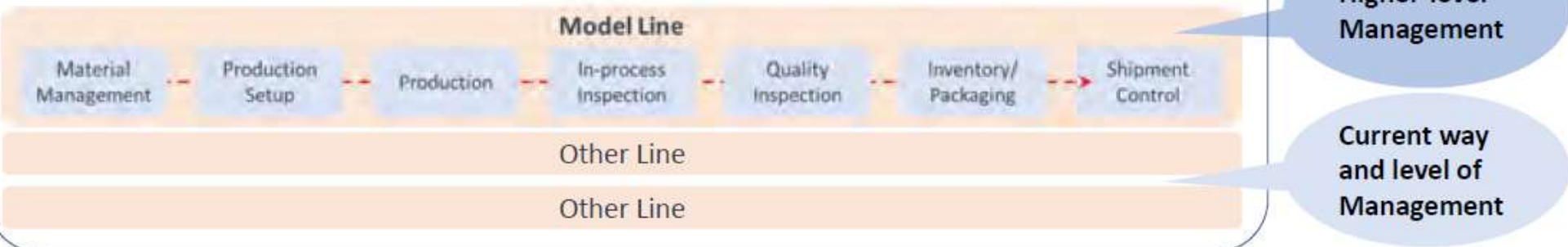
Concept of Project Purpose

(Note)
BDS: Business Development Service
BITAC: Bangladesh Industry & Technology Assistance Center
SMEF: Small & Medium Enterprises Foundation
Mol: Ministry of Industries

(Case 1) JICA BIPIC Project in Bangladesh

Establishment of a separate “Model Line” in pilot plastic companies to be prepared to demonstrate its high-level management and quality control and for concrete linkage with targeted FDI assemblers

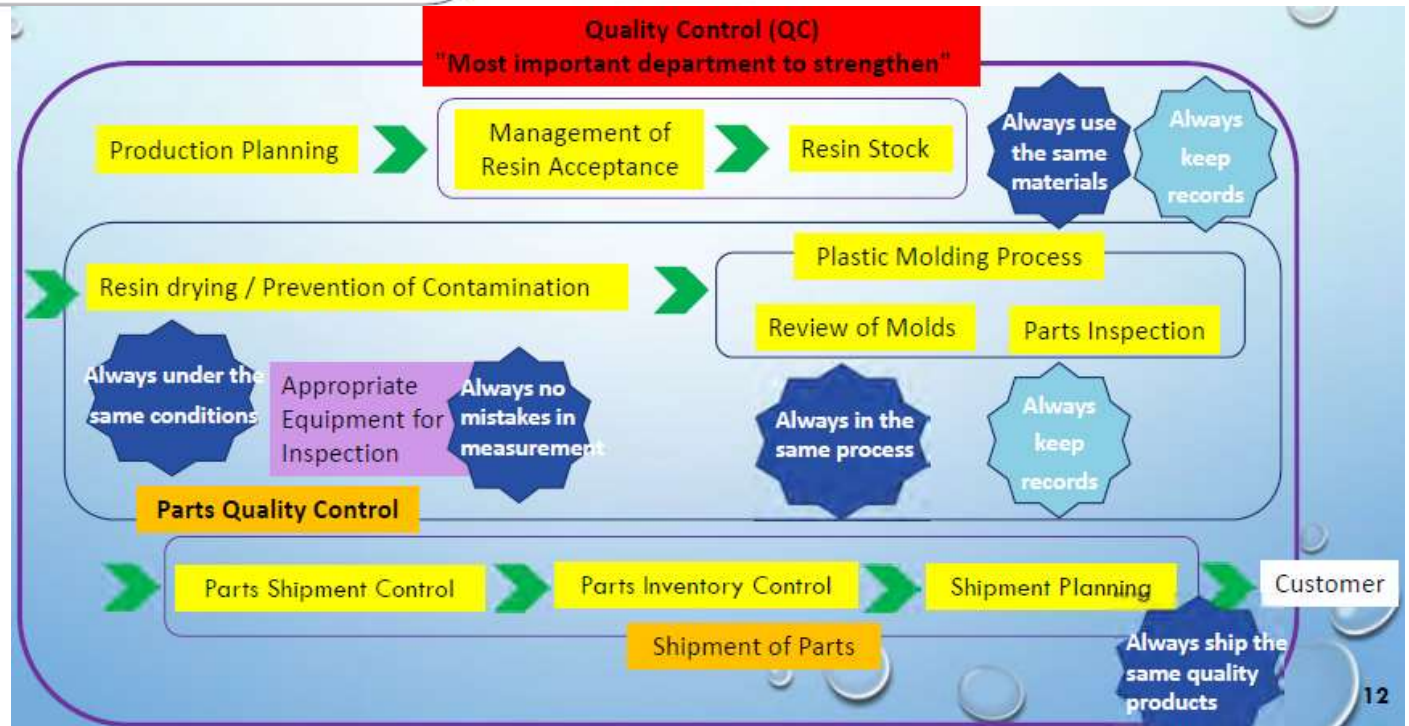
In a pilot company’s factory



Model Line (Before)



Model Line (After)



(Case 1) JICA BIPIC Project in Bangladesh

Linkage formulation between FDI and Local: geographical options

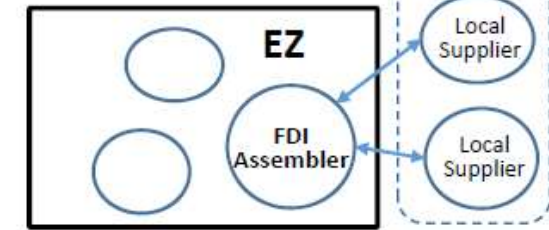


Case Study on Policy Options with Regional Focus:

1. Industrial Clusters and EZ Development in Chittagong Region

- Location map of the existing clusters of LE, plastic, steel and shipbuilding related industries
- Location mapping of planned EZs and identification of sectors/products of unit-investors
- Infrastructure requirements to support linkage formation

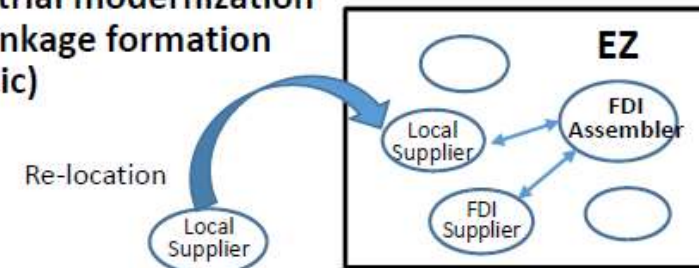
Policy options to encourage linkage formation with industrial clusters (LE)



2. Relocation of Industries (LE & Plastic) out of Dhaka

- Location map of the existing clusters of LE/ plastic (SME) in Dhaka and surrounding area, that are potentially subject to relocation
- Options for relocation destination (including planned EZs) and conditions
- Facilitation measures for linkage with assemblers after relocation

Policy options to encourage relocation, industrial modernization and linkage formation (plastic)



(Note)
EZ: Economic Zone
LE: Light Engineering

(Case 2) 'Japan Center' (10 centers in 9 countries)



3 main programs based on:

- (i) **Business courses**
- (ii) Japanese language courses
- (iii) Programs to promote mutual understanding

Business Matching Events (Example in Mongolia)



(Case 3) Startup support “Project NINJA”

Social issue solution
Innovation/DX acceleration
Contribution to SDGs



The poster features the title "Ethiopia Startups Innovation Pitch" in large white letters on a dark background. It includes a QR code, a map of Ethiopia, and a photo of a woman in a field. Text on the poster specifies the date as (Fri) 9th December 2022, time as 11am-1pm(EAT), and languages as English and Japanese. It also lists the organizers as JICA and MinT. At the bottom, there are eight circular portraits of participants under the heading "Startup Representation".

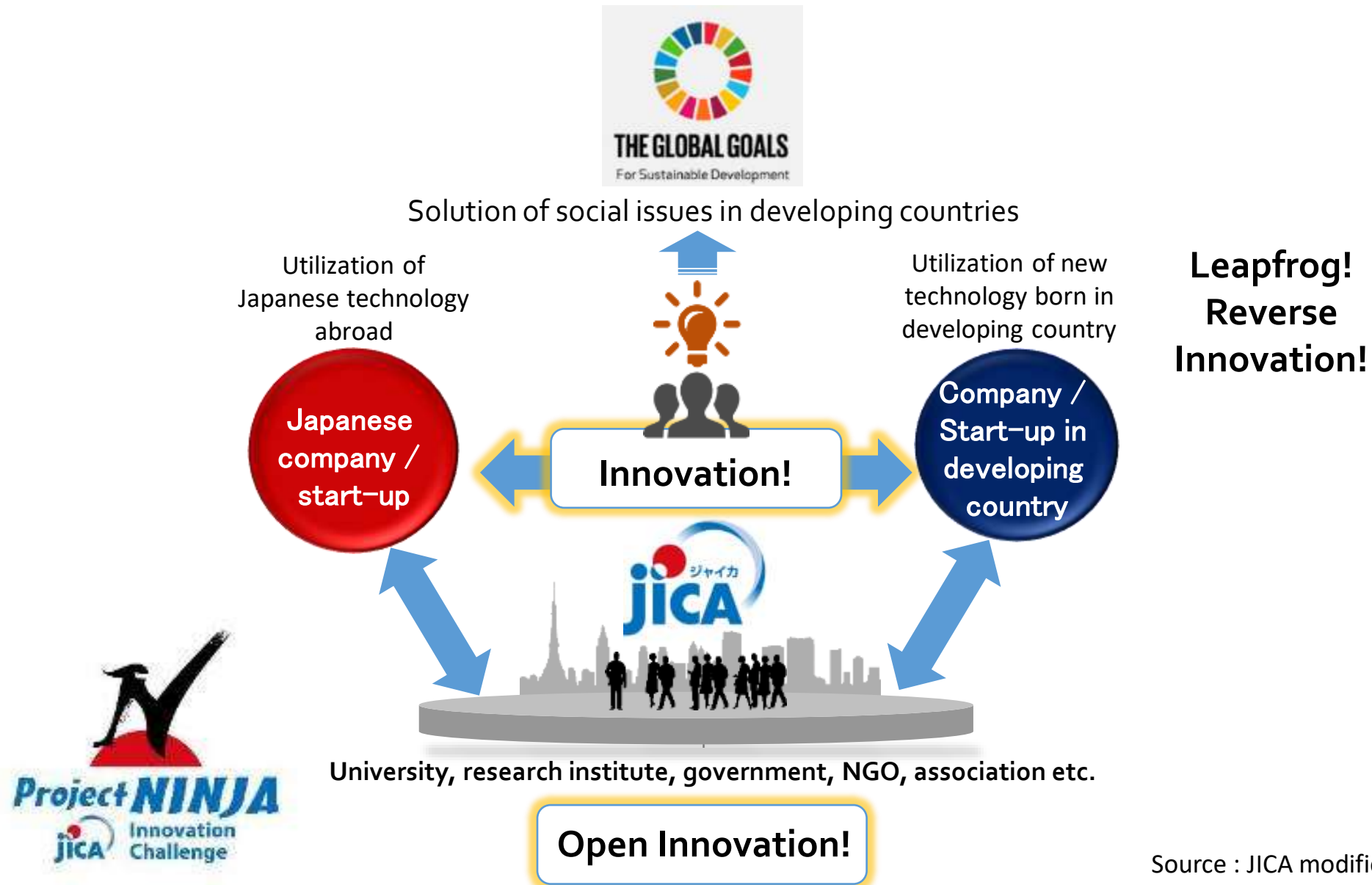
Activities (Example)



- (1) Support entrepreneurship and startup promotion
- (2) **Enhance business linkages** by events in and out of Japan
- (3) Promote venture investment / impact investment
- (4) Share information on startups in developing countries
- (5) Provide policy proposals on startup ecosystem enhancement
- (6) Understand impacts created by startups

NINJA: Next Innovation with JAPAN (JICA’s startup support activities)

(Reference) Business linkages for innovation



(Case 4) Myanmar Regional Investment Fair/Survey

MIC-JICA co-organized Shan State Investment Fair
(10 – 11 Feb 2017): 450 participants (vs 250 planned)



Opening Ceremony



Ministers' visit to Exhibition (21 booths)



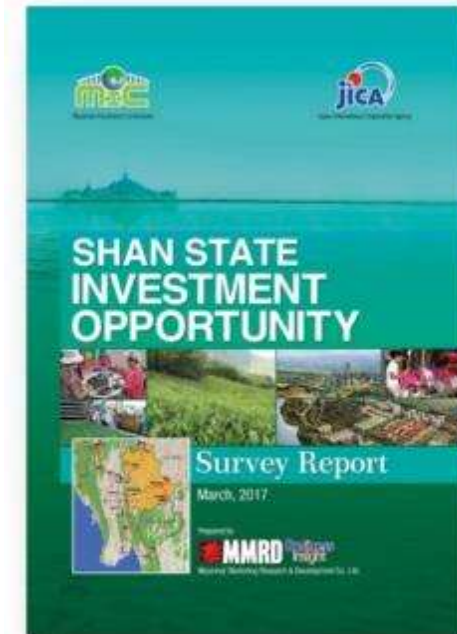
Investment Seminar



Business Matching Event



MIC-JICA co-planned Shan State Investment Opportunity Survey
(Oct 2016 - Feb 2017)



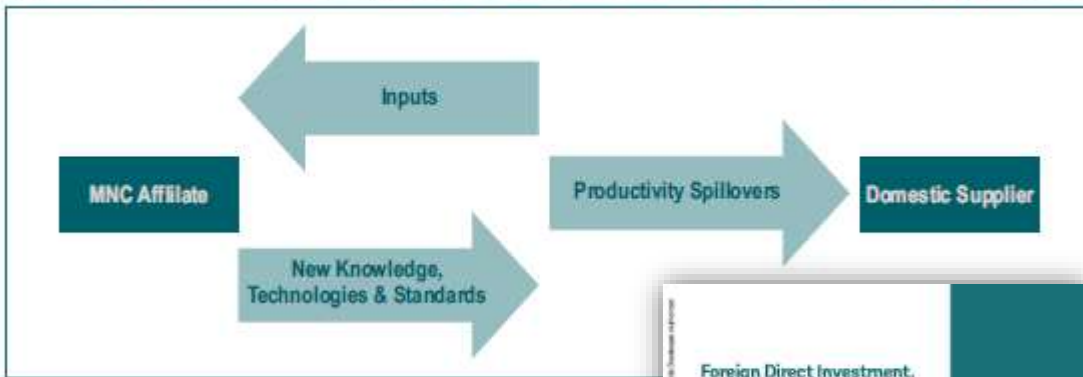
Site Visit Tour:
Taunggyi
Business
Center (TBC)

Investment Fair =
(1) Investment Seminar +
(2) Exhibition +
(3) Business Matching Event +
(4) Site Visit Tour

(Reference) World Bank 2020 FDI/Linkage Report

- FDI is a major contributor to development.
- FDI brings increased capital, employment and exports.
- MNCs/linkages can help improve productivity of local firms.
- They offer an important channel for local firms into GVC.
- However several challenges to materialize the benefits.

Figure 1. Local Inputs, Technology Dissemination, and Productivity Spillovers



Source: World Bank Group (2020) Foreign Direct Investment, Backward Linkages, and Productivity Spillovers - What Governments Can Do to Strengthen Linkages and Their Impact



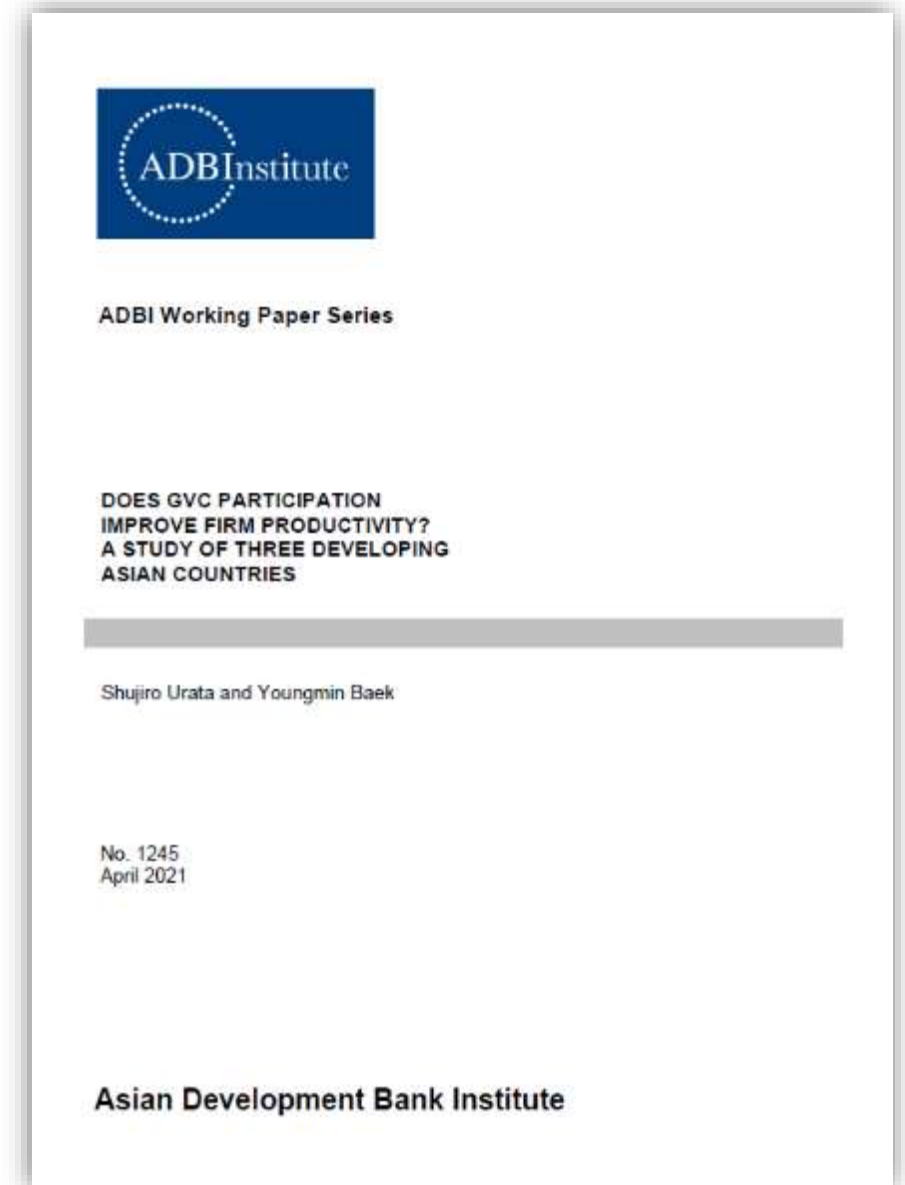
Table 1. Factors Influencing Backward Linkages, Technology Dissemination, and Productivity Spillovers

	Use of Local Suppliers	Technology Transfers	Productivity Spillovers
MNC Affiliates	MNC-related factors <ul style="list-style-type: none"> • Market-seeking • Percent of foreign ownership • Level of autonomy • Nationality • Cultural and institutional proximity to host economy Other firm characteristics <ul style="list-style-type: none"> • Size, age, and production processes 	MNC-related factors <ul style="list-style-type: none"> • Efficiency-seeking • Percent of foreign ownership • Level of local sourcing • Level of autonomy • Company policy Other firm characteristics <ul style="list-style-type: none"> • Size 	MNC-related factors <ul style="list-style-type: none"> • Market seeking • Percent of foreign ownership • Nationality • Distance to home country • Cultural proximity to host economy • Level of development home economy
Domestic Suppliers	<ul style="list-style-type: none"> • Lack of availability of inputs • Quality of inputs • Cost competitiveness • Reliability of supply • Limited scale of production processes 	<ul style="list-style-type: none"> • Firm size • Experience with supplying MNC affiliates • Experience with international markets • Commitment to develop linkages with foreign-owned clients • Participation in global value chains 	Absorptive capacity <ul style="list-style-type: none"> • Firm size • Export status • R&D involvement • Technology gap with client firms
Additional Factors	<ul style="list-style-type: none"> • Level of economic development of the host economy • Geographical proximity between MNC affiliates and domestic firms • Sector • Infrastructure • Quality of institutions (such as contract enforcement, and red tape) 	<ul style="list-style-type: none"> • Nature of input-output market • Selection process to identify suitable domestic suppliers • Access to finance for suppliers to make investments that support technology transfers 	<ul style="list-style-type: none"> • Agglomeration of economic activity • Geographical proximity between MNC affiliates and domestic firms • Human capital • Trade openness • Level of economic development host economy • Access to finance

Source: Based on the survey of empirical findings in Jordaan, Douw, and Qiang, Fortchoming.

(Reference) ADBI 2021 GVC/Productivity Report

- Does GVC Participation Improve Firm Productivity?
A Study of Three Developing Asian Countries
- Examined Indonesia, Philippines and Vietnam in 17 manufacturing sectors in 2009 and 2015
- Firms that enter GVCs have high productivity before participating in the GVCs (Selection Effect)
- Firms which entered GVCs had a high productivity growth after joining GVCs in Indonesia (Learning Effect)



Source: Shujiro Urata and Younmin Baek (2021) Does GVC Participation Improve Firm Productivity? A Study of Three Developing Asian Countries, Asian Development Bank Institute (ADBI)

Summary and further discussion

- ❑ **Business linkage promotion** is an important piece of JICA's private sector development approach
- ❑ It includes such as investment promotion, SEZ development, value chain development, and business matching
- ❑ Holistic support in (i) attracting FDI, (ii) local firm capacity building, and (iii) business linkage creation
- ❑ Bangladesh BIPIC Project case on **comprehensive approach to promote linkages between FDI & local companies**
- ❑ **Needs to be prepared** to be a partner of business linkages (example of model lines)
- ❑ Various **business matching** events to foster business linkages including startups for innovation
- ❑ References to provide evidences on importance of FDI-local linkages and positive effects on productivity etc.
- ❑ **Policies to enhance business linkages** need to be clearly addressed for encouraging both FDI and local firms for business linkage creation
- ❑ Further discussions on policy and implementation



***Thank you
Amesegenalew
Arigato!***



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