

# OECD INVESTMENT COMPACT

## First Meeting of the Working Group on Investment Promotion

Antwerp, 18 June 2007

### 1. Welcome and Introduction

- The meeting was opened by Luc van Looveren, Head of Euro Info Center, VOKA – Chamber of Commerce Antwerp- Waasland Flanders, Elena Pishtovkoleva, Director, Investment Policy directorate, Bulgaria, and Anthony O’Sullivan Head of Programme, Investment Compact for SEE

### 2. Overview of the FDI-SME Linkage Programmes and Draft Concept Paper on “How to Implement” an FDI-SME linkage programme

#### Investment Compact:

- Definition and concept of FDI-SME linkage programme: structured approach through which foreign and local enterprises can support each other’s economic performance through collaboration in areas such as skills development, upgrading technical standards, manufacturing and distribution and access to new markets.
- Investment Compact will draft guidelines on how to implement FDI-SME linkage programmes; a four-phased approach is proposed; detailed actions for each phase will also be included.
- Role of the Working Group on Investment Promotion: implementation of the “how to implement” linkage programmes and the project “Strengthening Sector Specific sources of Competitiveness”.

#### Experience of the Czech Republic and Ireland in implementing supplier development programmes:

- Czech supplier linkage programme aims at developing high value added supply chains in key sectors (e.g. electronics and electro-technics, components for automotive and aircraft industry, pharmaceuticals and biotechnology, precise engineering and automotive industry).
  - The programme implementation had various phases, such as establishment of a sourcing department support, development of sectoral databases, a pilot round of supplier linkage programme (including the supplier identification, customised visits of suppliers, supplier forum organisation).
  - After the programme was piloted in one sector (electronics and electro-technical equipment), it was extended to other sectors (components for automotive and aircraft industry, pharmaceuticals and biotechnology, precise engineering and automotive industry).
  - Several factors played a key role: the long-term commitment of all participants; development of a pilot programme for one sector before extending it to other sectors; training of staff/hiring of skilled professionals with experience as assessors.
  - Concrete results of the programme are: 150 companies were directly supported through the programme; contracts worth 4 billion CZK were concluded between MNEs and local suppliers; productivity increased by 10%, turnover by 15% and exports by 40%.
- Irish FDI-SME linkage programme was designed to integrate and maximise FDI contribution.
  - Pre-conditions for the creation of such a programme were: enthusiastic support from Government, advantages/incentives to outsource to MNEs, local supply companies with energy and vision, reliable databases, in-country company and entrepreneur development programme, significant purchase available to local small companies.
  - Linkage programme was established in 1970s within IDA, which led a consortium of local companies. The programme developed a group of domestic suppliers in selected sectors and offered buyer support and development services.
  - Several factors played a key role: the existence of credible/suitable local suppliers, performance evaluations, capacity building with the assistance of MNEs, and active support of purchasers.

- Concrete results of the programme are: between 1985 – 1992 foreign affiliates increased local purchases of raw materials by half (GBP 438 mill. to GBP 811) and of services by one third (from GBP 980 mill. to GBP 1.46 bn); in electronics sector, local sourcing increased from 9% to 19 % of sales (FDI firms).

### **OECD Centre for Entrepreneurship, SMEs and Local Development:**

- OECD Study “Enhancing the role of SMEs in global value chains” focuses on the effects of the globalisation of value chains on small- and medium-sized enterprises.
  - The re-organisation of production at the international level, through increased outsourcing and the development of global value chains, is having significant effects on small and medium-sized suppliers.
  - New niches for the supply of products and services continually emerge from the fragmentation of production, where small firms can quickly position themselves, exploiting their flexibility and their ability to move fast.
- The main issue is how to improve SME competitiveness having in view that 2/3 of employment is created by SMEs in most countries.
- An important aspect is the protection of intellectual property rights (IPRs) by SMEs which is not always properly ensured.

### **3. Panel discussion with the SEE Investment Promotion Agencies**

Several considerations need special attention when designing and implementing linkage programmes:

- Pilot the linkage programme in one/two sectors;
- Develop a critical mass of viable suppliers;
- Address IPRs through training sessions when implementing the programme;
- Involve universities to ensure a proper pool of skills;
- Communicate vision internally and to all relevant policy-makers;
- Build support from MNEs/local suppliers and government;
- Ensure programme implementation through the IPA;
- Assign a charismatic programme leader;
- Co-ordinate policies, especially FDI and SME ones.

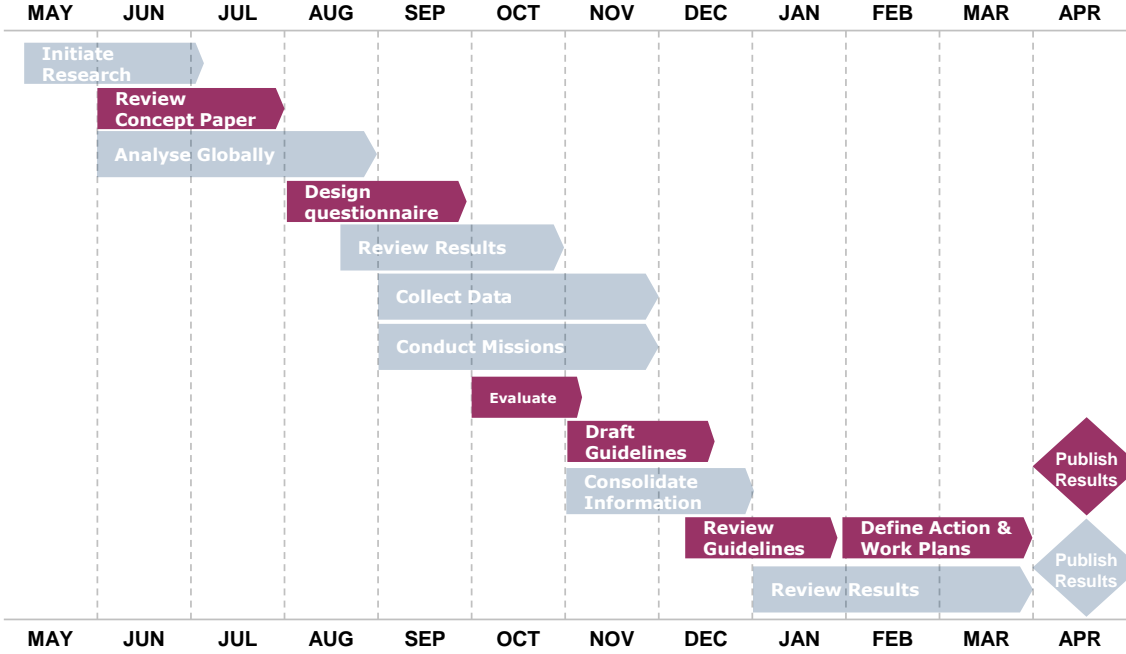
For a detailed list of questions and answers, see Annex 1.

### **4. Presentation of the project “Strengthening Sector Specific Sources of Competitiveness” financed by the European Commission**

- Objective of the project is to improve the investment environment in four sectors identified as high growth/high opportunity sectors across the Western Balkans by:
  - Developing a sectoral analysis to complement the IIWB investment promotion agenda which has been endorsed by the Western Balkan countries and is being actively implemented in conjunction with the countries’ investment promotion agencies;
  - Providing detailed and accurate data and information for each sector;
  - Removing sector specific barriers in targeted sectors.
- The role of the Working Group on Investment Promotion is to :
  - Provide data and information that feeds into the analysis;
  - Review and validate the results of the analysis at key milestones;
  - Disseminate results to government and private sector.
- The project has three phases:
  - Sector selection and analysis;
  - Strengthening sector specific sources of competitiveness;
  - Investment promotion and image building.

- Analysis will cover sub-sectors, the related value chains and all the competitiveness indicators; the promotional efforts will take all these elements into account.
- Barriers to investment in these four sectors will be identified and recommendations on how to remove them will be made.
- Four sectors with growth potential have been identified: ICT, automotive, textiles and garments, and BPO. These are considered at regional level and address all the countries’ development potential.
- Effective support in promoting the region should be tailored in close co-operation with the beneficiary countries; the presentations will have to include clear and precise data and information; sectoral analyses will be developed jointly with the countries; road shows will be organised in cooperation with OECD countries (e.g. Italy); countries and investors will be targeted in an efficient way.
- There is a need to closely cooperate with IIWG to ensure effective implementation of the project.
- All beneficiary countries will be informed about the project milestones, including the promotional events, and will be invited to attend the investor missions.

**5. Timeline to implement the Working Group Agenda**



\*Note: Timeline for How-to implement FDI-SME linkage programmes in purple; timeline for Project “Strengthening Sector Specific Sources of Competitiveness” in blue.

## ANNEX 1

### List of Questions and Answers

*Question – OECD:* What are the first steps to start a linkage programme?

*Answer – Czech Invest:* It is important to define the objectives of the linkage programme. The Czech Republic wanted to develop high value added supply chains in key sectors (e.g. automotive, aircraft industry). The linkage programme should be piloted in one sector and the extended to other sectors.

*Comment - Serbia:* Serbia has introduced a linkage programme very recently. 50 MNEs expressed their interest in finding local suppliers.

*Question – OECD:* What is the EFQM (European Foundation for Quality Management) Excellence Model? Is the EFQM model important to improve the quality of local suppliers? What are the necessary resources?

*Answer – Czech Invest:* EFQM helps local suppliers improve their productivity and management; cost of participation in the linkage programme is less than 2,000 EUR for local suppliers. The programme was financed by the EU and the Czech Government.

*Answer – Ireland:* IDA had a vision of what needed to be done to root MNEs in Ireland. The main purpose of the programme was to attract R&D and other operations of MNEs in the country. The focus (sectors) evolved over the years (first phase: backward linkages that evolves towards forward linkages). One challenging factor was to change the mindset of Irish entrepreneurs. The linkage with local universities and research institutes, critical mass of MNEs/local suppliers and the role of IDA as facilitator are success factors of the programme.

*Question – OECD:* What should IPAs do to implement a linkage programme?

*Answer – Ireland:* IPAs should identify a good sponsor and seek assistance to structure the programme.

*Answer – Czech Invest:* Two key success factors are: the existence of well-trained and skilled staff (staff could be sent to training in the countries with experience in implementing linkage programmes), and the existence of good assessors.

*Question – Serbia:* How were the SMEs in the pilot sector chosen? Would it be possible to start with the MNE selection?

*Answer – Czech Invest:* SMEs in the pilot sector had to be free of debts to the government and willing to pay EUR 1,000. The programme co-ordination committee included heads of industry associations in order to keep them informed.

*Answer – Ireland:* When selecting the pilot sector there is a need to have FDI in that sector. The linkage programme should be piloted in one sector in order to be successful. Moreover, the politicians need to be convinced about the usefulness of the programme.

*Question – OECD:* How is the Serbian linkage programme structured?

*Answer – Serbia:* The Serbian linkage programme is financed by the European Commission and implemented with World Bank assistance; 50 MNEs were invited to participate but they are operating in various sectors (e.g. Siemens, Gorenje, Ball Packaging, Coca-Cola). There is a need to define a methodology to structure the programme.

*Comment – OECD:* OECD could:

- Support governments in defining the programme approach to obtain maximum impact from limited resources;
- Coach in developing various implementation stages;
- Act as a go-between in SEE countries to facilitate the exchange of information.

*Question – Macedonia:* MNEs fear that IPRs are not respected by local suppliers. Protection of IPRs remains a problem across SEE. What can OECD do about this?

*Answer – OECD:* there are several ways to address the protection of IPRs at the local supplier level:

- Increase management awareness of intellectual property rights protection;
- Sign exclusivity contracts with local suppliers (this could pose some problems for SMEs since they could become dependent on the MNEs from the technological point of view);
- Increase the IPAs advocacy role regarding IPRs.
- Get suppliers to show how they manage IPR implementation.

*Answer – Czech Invest:* Confidentiality agreements were signed between Czech Invest and participating companies as well as between companies and assessors. Such confidentiality agreements could be signed between MNEs and local suppliers regarding the IPR protection.

*Comment – Ireland:* Collaboration with education institutions is very important in order to ensure good implementation of the programme. The budget for such a programme should be spent cautiously and in sectors that could produce results. Clusters and cross-border cooperation opportunities were also developed.

*Question – Bulgaria:* How were the companies convinced to participate in the Czech supplier programme?

*Answer – Czech Invest:* Czech Invest committed to improve the management skills of local suppliers. A promotional campaign was organised to communicate the programme objectives. Experts from the UK were involved in the programme.

*Question – Serbia:* what are the concepts of “reverse exhibition” and “meet the buyer”?

*Answer – Czech Invest:* Toyota organised “reverse exhibitions” in Prague (2002/2003). The company exhibited a component whose production was planned to be outsourced. 10 suppliers were identified. Czech Invest provided training for the local suppliers.

*Answer – Ireland:* IDA organised exhibitions for food and juice producers. It also organised seminars on food hygiene for local suppliers to raise their awareness in this field as well.

*Question – Bulgaria:* How was the pilot sector selected and why? Bulgaria has many initiatives that support linkages but did not start the implementation of an integrated approach.

*Answer – Czech Invest:* The pilot sector was the automotive industry. This sector was selected based on its contribution to the GDP (%) and FDI potential. It is important to monitor whether MNEs consider Bulgaria for FDI.

*Question – Albania:* Please explain the importance of involving educational institutions in the programme.

*Answer – Ireland:* In the 70s the education system was not adapted to respond to what business needed having in view the technological developments. Ireland had to adapt its education system and therefore established training schools to develop special skills (e.g. for “just-in-time” manufacturing).

*Comment – Bosnia and Herzegovina:* The implementation of an FDI-SME linkage programme requires appropriate staff and budget. Bosnia (FIPA) lacks adequate staffing and budgetary resources. Currently no linkage programme exists in Bosnia. FIPA contacted a pool of SMEs and asked them to fill out a questionnaire. A USAID project on cluster development in the automotive area is ongoing.

*Response – Ireland:* These are the first steps to define a linkage programme. Funding can be always found. Bosnia needs to have an outline prepared.

*Question – OECD:* What are the implications for linkage programmes if the MNEs downsize?

*Answer – Ireland:* In Ireland, companies looked at cheaper sources for outsourcing.

*Question – OECD:* What type of structure is most appropriate for the implementation of linkage programmes?

*Answer – Ireland:* A good level of co-ordination is key for the implementation of linkage programmes. Such a programme needs to be managed by the IPAs in order to ensure policy co-ordination (e.g. FDI and SME policies).