United Nations
Economic Commission for Africa

Building linkages between micro-, small and medium-sized enterprises and multinational companies from the global South: the case of Southern Africa

Report

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Contents

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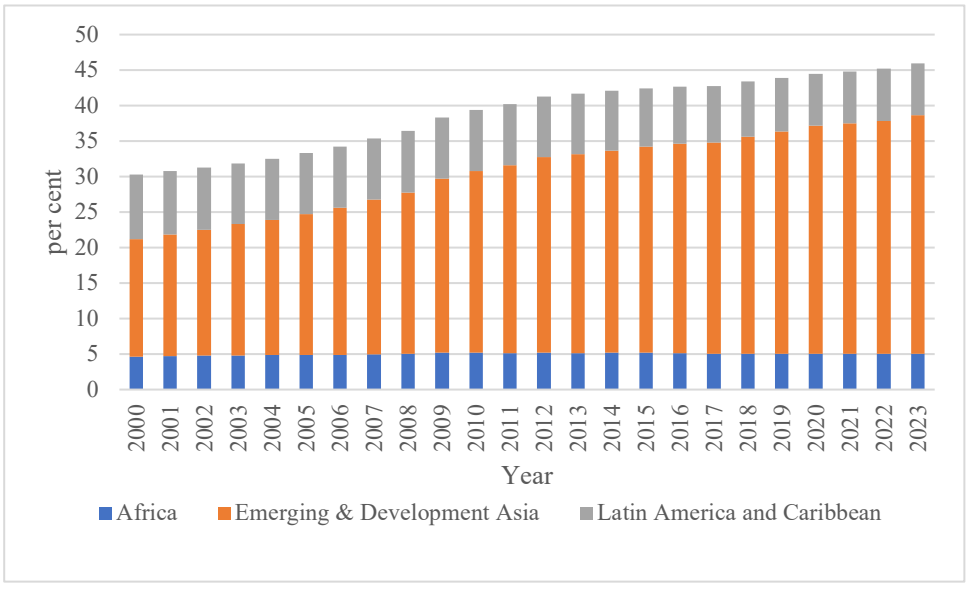
1. Introduction

1.1 Enhancing international trade in intermediate inputs in Southern Africa: the impact of the African Continental Free Trade Area and foreign direct investment originating in the global South.

According to the International Monetary Fund (IMF), the economy of Africa is likely to grow by 3.7 per cent in 2023, slightly below the average for developing countries (3.9 per cent) and much less than the average for developing countries in Asia (5.3 per cent) (IMF, 2023). Since the beginning of the twenty-first century, developing economies have accounted for an increasing share of global gross domestic product (GDP), primarily as a result of the impressive performance of Asian economies (see figure I). African economies increased their share of global GDP to approximately 5.2 per cent in the first few years of the second decade of the century, but economic growth has slowed since then, and African economies now account for some 5 per cent of global GDP, in part because of production constraints that undermine the capacity of economies to take advantage of the rebound in global demand (African Union Commission (AUC) and Organisation for Economic Co-operation and Development (OECD), 2022). Meanwhile, developing economies in Asia and in Latin America and the Caribbean now account for some 33.6 per cent and 7.2 per cent of world GDP, respectively.

Figure I: Share of global gross domestic product at purchasing power parity, selected global regions

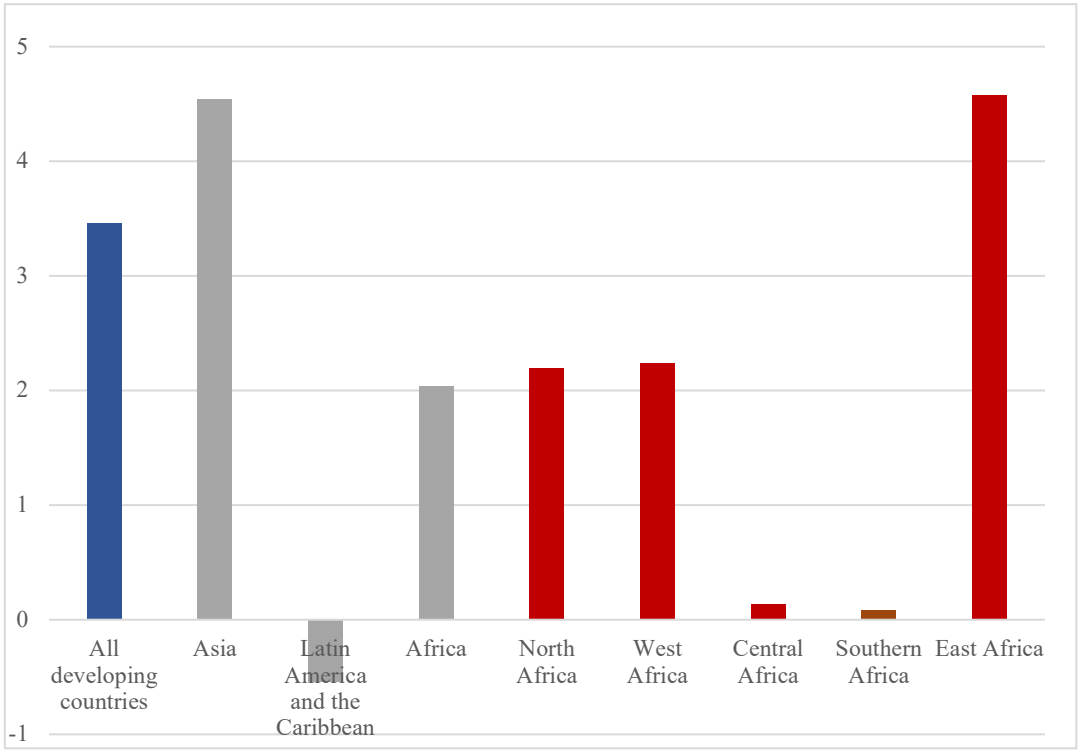


Source: *Author's elaboration on the basis of IMF (2023).*

In the late 2010s, Southern Africa was one of the poorest and unequal parts of the world and, as illustrated in figure II, experienced growth that was far slower than that in other developing subregions. According to data provided by the United Nations Conference on Trade and Development (UNCTAD), annual economic growth in Southern Africa between 2015 and 2021 averaged only 0.08 per cent. That was significantly lower than the global average for growth in developing countries (3.5 per cent) and

lower than in all other African subregions, among which growth was strongest in Eastern Africa, where it averaged 4.6 per cent. (UNCTAD, n.d.).

Figure II: Annual average growth rates, 2015–2021, all developing countries and selected global regions and subregions (Percentage)



Source: *Author's elaboration on the basis of UNCTAD (n.d.).*

As a result, primarily, of the subregion's colonial legacy, most Southern African economies remain small and heavily dependent on mining and plantation agriculture (Robinson, Acemoglu and Johnson, 2003; Sylwester, 2005; Hirsch and Lopes, 2020). The manufacturing sector, including food and beverage production, is heavily concentrated in South Africa and remains underdeveloped, employing only 10 per cent of workers across the subregion. Moreover, manufacturing companies tend to be small, informal and technologically underdeveloped (UNCTAD, 2021).

The International Labour Organization (ILO) estimates that small and medium-sized enterprises account for more than two thirds of total employment in developing and emerging economies (ILO, 2019). In the Middle East and North Africa, self-employment and microenterprises, namely enterprises with fewer than 10 employees, account for some 70 per cent of total employment, while in South Asia and sub-Saharan Africa, they account for approximately 80 per cent (in some countries, including Mali, they account for almost 100 per cent of employment). Looking at sub-Saharan Africa alone, self-employment, microenterprises (between two and nine employees) and small enterprises (between 10 and 49 employees)[1] account for 90.8 per cent of total employment (50 per cent, 34.3 per cent and 6.5 per cent, respectively). In the agricultural sector, the figure is 94.9 per cent of total employment, while in industry and services, the figure is over 80 per cent.

1 The thresholds used to categorize micro-, small and medium-sized enterprises vary according to the particular statistical approach adopted. The present report adopts the thresholds established by the International Finance Corporation. For further information, see ILO, 2019.

Implementation of the Agreement Establishing the African Continental Free Trade Area, which entered into force in 2019, is expected to support African economies by strengthening cross-border value chains. The aim of the Agreement is to establish the world's largest common market, with aggregate GDP of approximately $3.4 trillion,[2] by providing for the removal of tariff and non-tariff barriers and facilitating trade. The Agreement establishes a common regulatory framework to supersede the current framework of multiple bilateral investment treaties, and complements current subregional agreements on cross-border investments, inter alia by strengthening protections for private-sector investors and holders of intellectual property rights. The Agreement is expected to bolster African economies by increasing real incomes, building resilience to external shocks, increasing productivity (through the more efficient allocation of resources across countries and sectors) and bolstering intra-African trade, particularly in manufactured goods (World Bank, 2020a).

Despite the risks it entails, integration into global value chains can have a significant positive impact on development (Taglioni and Winkler, 2016; Kummritz, Taglioni and Winkler, 2017; World Bank, 2020b). The benefits can be particularly large for small and medium-sized enterprises, as integration into global value chains can help them scale up their operations, improve their productivity and acquire new technology (OECD and United Nations Industrial Development Organization (UNIDO), 2019; OECD, 2021). At the global level, an increase in global value chain participation rates of 1 per cent is correlated with an increase in per capita income of more than 1 per cent (World Bank, 2020a). Given that a limited manufacturing base prevents African countries from developing comparative advantages through the entire value chain (IMF, 2015), increased access to global value chains provides a golden opportunity for African business enterprises to take advantage of technological spillovers from global players (Amendolagine and others, 2019; Del Prete, Giovannetti and Marvasi, 2017). At present, however, the participation of African producers in global value chains remains limited, with very few benefits accruing to African business enterprises. This is due, primarily, to significant scale and technological gaps with leading global players. African countries' participation is mostly limited to the export of raw natural resources and agricultural commodities, which are then processed outside the continent. In 2019 the export of intermediate inputs, namely forward participation in global value chains, accounted for 5.9 per cent of African GDP, while imports of intermediate inputs, namely backward participation in global value chains, accounted for 2.1 per cent of the continent's GDP (African Union Commission (AUC) and OECD, 2022).

The development of regional value chains is likely to increase opportunities for African countries to increase their cross-border trade in intermediate inputs, especially those used in manufacturing, and to generate more productive jobs in the downstream stages of the value chain. In the agrifood value chain (one of the most important value chains in Africa), Tschirley and others (2015) show that job creation in the downstream stages of the chain can boost non-farm jobs, which are associated with significantly higher output per worker than farm jobs. Barrientos and others (2016) highlight that joining both global and regional value chains has enhanced the economic and social status of horticultural producers and workers in South and East Africa. Black and others (2021) chart the development of regional value chains in the Southern African apparel and food sector. More specifically, the apparel sector is increasingly populated by foreign investors from within the African region (primarily from Mauritius and South Africa), while the food sector is developing rapidly as a result of competition and growth among South African supermarket chains. In 2019 regional value chains accounted for only 2.7 per cent of the total African participation in global value chains. Regional value chains involving developing countries are significantly more relevant than chains involving developed countries: in Latin America and Asia, for example, regional value chains account for 26.4 per cent and 42.9 per cent, respectively, of the

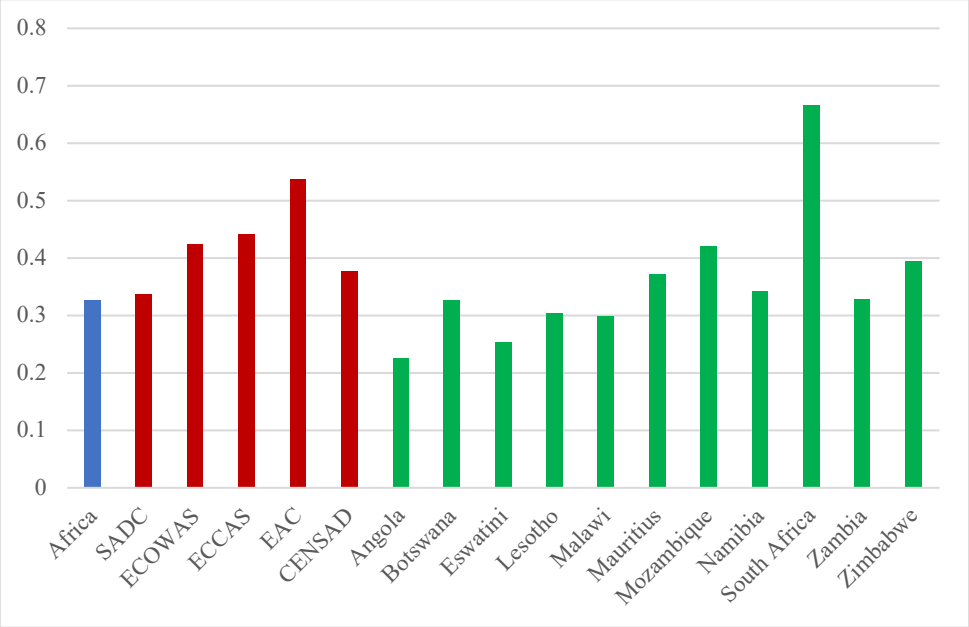
2 Further information about the African Continental Free Trade Area is available at: au.int/en/african-continental-free-trade-area.

participation of those regions in global value chains. The establishment of the African Continental Free Trade Area is likely to support African regional value chains and facilitate the productive transformation of African economies, accelerating the continent's economic diversification and development in the process. Fostering regional production can enhance diversification and upgrading. In 2019, processed and semi-processed goods accounted for 79 per cent of intra-African exports, but only 41 per cent of African exports to other destinations.

This suggests that African economies could be particularly successful at building value chains within the region, in part because of the relatively short geographical, social, cultural and institutional distances among African producers (AUC and OECD, 2022).

Overall, the economies of SADC member countries are less well integrated than the economies of members of other regional economic communities, in particular the East African Community. As illustrated in figure III, however, certain African countries, and especially those in Southern Africa, have made significant progress in terms of economic integration. Those countries include Mauritius, Mozambique, Namibia, South Africa (overall, the most integrated African country), Zambia and Zimbabwe.

Figure III: Africa Regional Integration Index scores, Africa as a whole and selected regional economic communities and countries, 2019



Source: *Author's elaboration on the basis of data for 2019 provided on the ECA Africa Regional Integration Index Platform.*

Notes: *SADC: Southern African Development Community; ECOWAS: Economic Community of West African States; ECCAS: Economic Community of Central African States; EAC: East African Community; CENSAD: Community of Sahelo-Saharan States.*

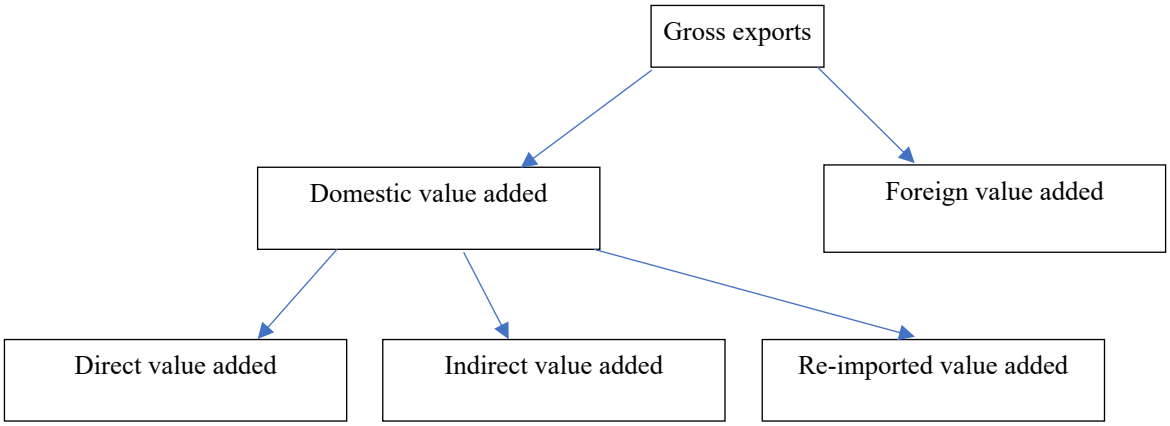
As highlighted in UNCTAD (2021), Southern African regional integration can increase the benefits accruing to States from value chain development. Urbanization is supporting the fast growth of subregional demand for high-value goods and services and the merchandise complementary index score, which measures the complementarity of potential trade partners, is higher in Southern Africa than in all other African subregions.

Southern African participation in global value chains is mainly limited to exports of raw materials and agricultural products to the global North, as well as to China and India. Manufacturing value chains are mostly limited to national and regional markets (UNCTAD, 2021) Unlike economies in other developing

subregions, including in Asia and Latin America, Southern African economies have limited capacity to access global manufacturing value chains, and are impeded by inadequate transport and electricity infrastructure, limited technological capacity and limited experience as suppliers to lead global players (Rodrik, 2018). Exceptions to that rule include the auto assembly cluster and processed fruit sector in South Africa and the clothing sector in Lesotho and Eswatini. Overall, most manufacturing output in Southern Africa (92.4 per cent in 2021), is concentrated in South Africa (UNCTAD, n.d.).

Integration into global value chains can be measured using the indicators developed by Koopman, Wang and Wei (2014), which, as illustrated in figure IV, are based on the decomposition of value added in gross exports.

Figure IV: Decomposition of gross export value added



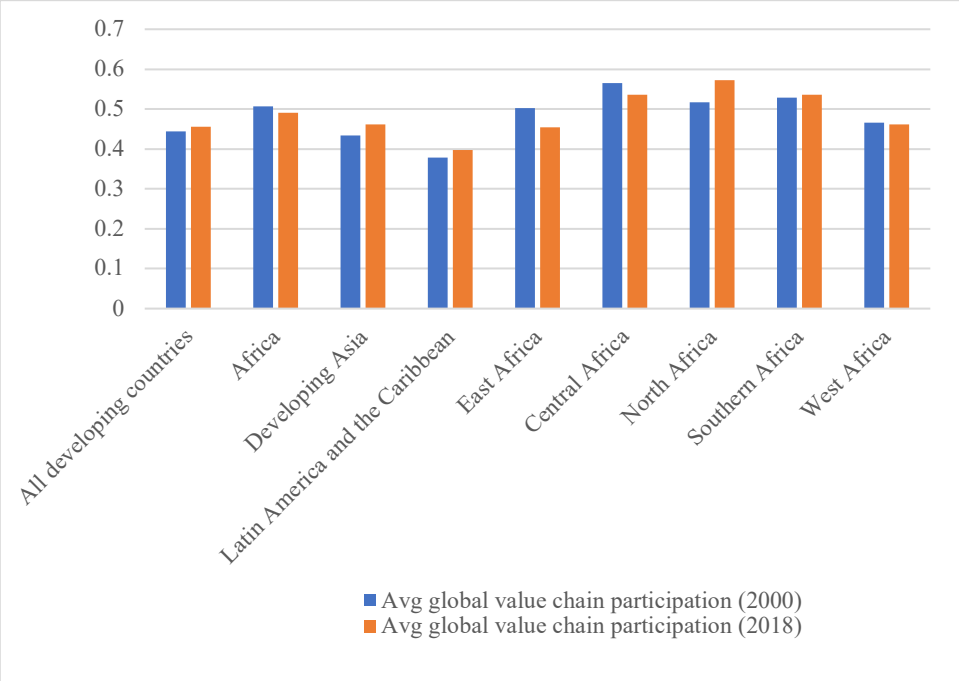
Source: *Author's elaboration on the basis of Koopman, Wang and Wei (2014).*

The global value chain participation index is calculated as the sum of an upstream and a downstream component, divided by gross exports. The upstream component measures the export of value added of intermediate inputs. It is calculated as the part of the exported domestically-produced value added that is re-exported to third countries (indirect value added). The downstream component measures imports of intermediate inputs. It is calculated as the foreign valued added included in exports. Furthermore, a global value chain position index is calculated as the ratio of the upstream component to the downstream component and measures the relative "upstreamness" of economies along global value chains. The two indices, namely the global value chain participation index and the global value chain position index, can be calculated using data available in the UNCTAD-Eora Global Value Chain database (UNCTAD-Eora, n.d.).[3] Figure V shows that developing countries have increased the intensity of their participation in global value chains in recent years, with the percentage share of trade in value added (intermediate inputs) in gross exports increasing from 44.5 per cent in 2000 to 45.6 per cent in 2018. In 2018, Africa was the most integrated developing region in terms of global value chains, with trade in value added accounting for some 49 per cent of gross exports, which is more than in developing Asian economies (46 per cent) and Latin America and the Caribbean (40 per cent). As for the African subregions, both North and Southern Africa increased their participation in global value chains between 2000 and 2018: the share of intermediate input trade in gross exports rose from 52 per cent to 57 per cent in North Africa and from 53 per cent to 53.6 per cent in Southern Africa during that period. As for the global value chain position indicator (Figure VI), the average African economy was relatively more downstream oriented in 2018 than the average for developing economies: exports of value added were only 2.8 times the value of imports in Africa, considerably lower than in developing Asian economies (9.4 times). The global value chain position indicator remained relatively stable over the period in question across the various

3 For further information on the database, see the box on page 11 of this report.

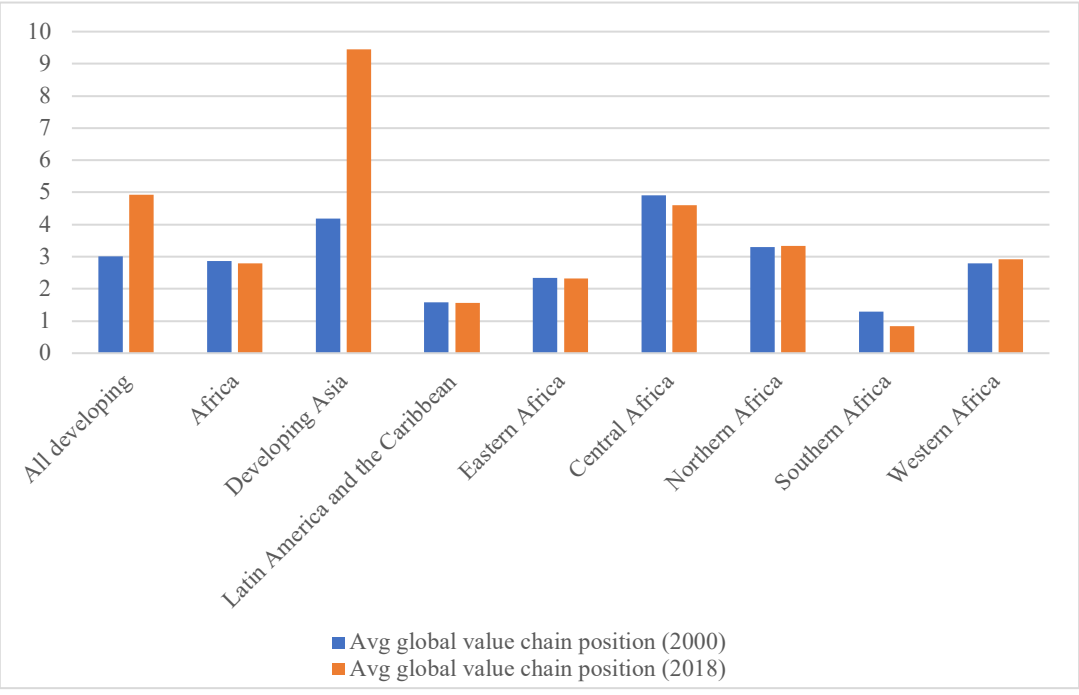
African subregions. Southern Africa was the most downstream-oriented African subregion, with exports of value added some 0.8 times that of imports.

Figure V: Average global value chain participation index scores, Africa and selected regions and subregions, 2000 and 2018.



Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.).*

Figure VI: Average global value chain position index scores, Africa and selected regions and subregions, 2000 and 2018

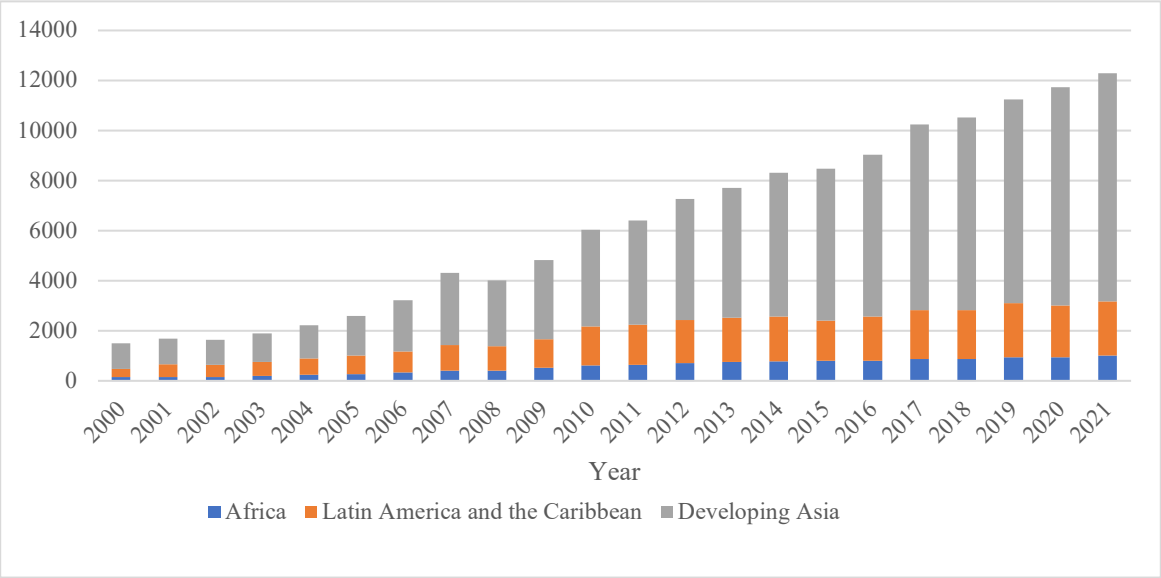


Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.)*

Foreign direct investment (FDI) can facilitate the integration of developing countries into global value chains (Taglioni and Winkler, 2016) because multinational corporations are directly (through intra-firm relations) or indirectly (through contracts), responsible for a large share of trade in value added in many African countries. Foreign direct investment can, moreover, support local economies by providing financial assistance, creating jobs, strengthening human capital, mobilizing new and more variegated capital inputs and facilitating cross-border technology transfers (Hanousek, Kočenda and Maurel, 2011; Loungani and Razin, 2001).

At the global level, inward FDI stock in developing economies has increased steadily since the early 2000s, rising from $1.5 billion in 2000 to $12.3 billion in 2021. Over the same period, African inward FDI stock increased from $153 billion to approximately $1,000 billion. However, the African continent's share of total inward FDI stock in developing economies, which stood at around 10 per cent at the beginning of the second decade of the twenty-first century, has declined over time, and stood at 8.3 per cent in 2021. Developing Asian economies, on the other hand, are attracting an increasing share of inward FDI stock in developing countries. Those trends are illustrated in figure VII.

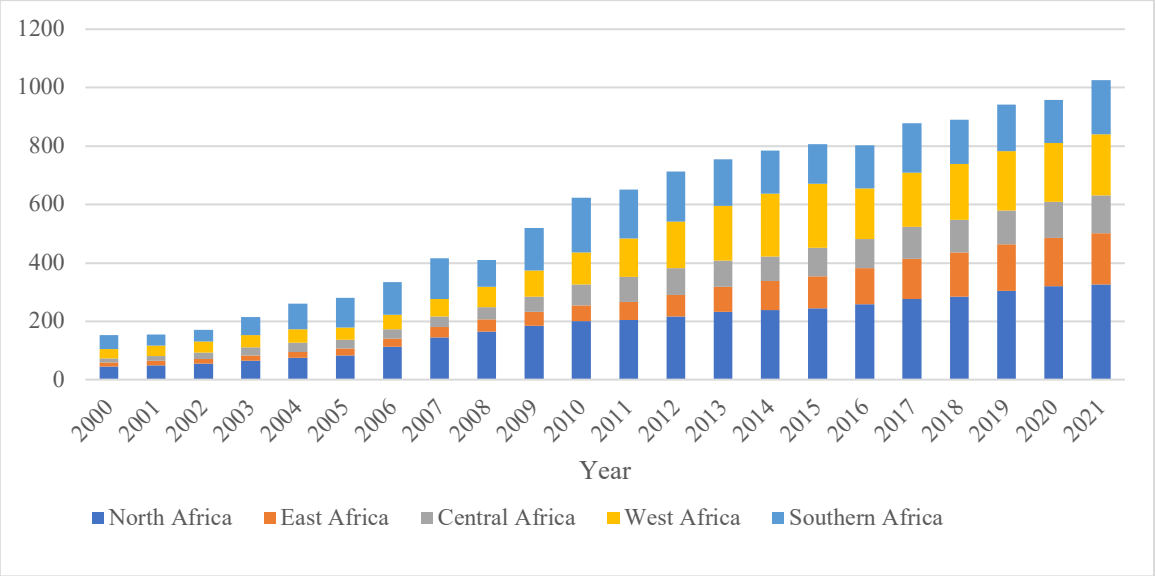
Figure VII: Inward foreign direct investment stock in developing economies, 2000–2021 (Billions of United States dollars)



Source: *Author's elaboration on the basis of UNCTAD (n.d.).*

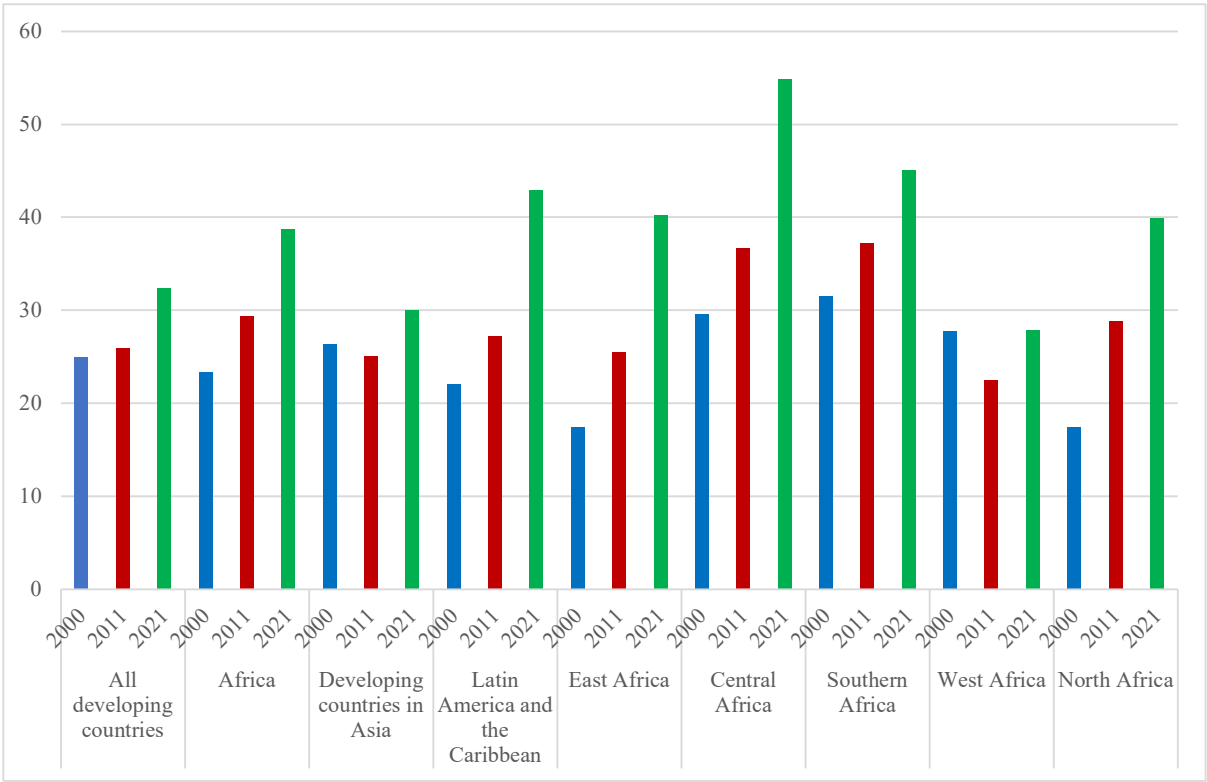
Inward FDI stock has increased in recent years in all African subregions, particularly in Southern Africa, where it rose from $47 billion in 2000 to $186 billion in 2021. Over the same period, inward FDI stock in East Africa increased from approximately 9 per cent to around 17 per cent of the total inward FDI stock in Africa as a whole, while the share of total inward FDI stock in Southern Africa decreased from about 30 per cent to less than 20 per cent. The share of inward FDI stock in other African regions remained relatively stable. Those trends are illustrated in figure VIII. FDI as a share of GDP increased between 2000 and 2021 in all subregions, as shown in figure IX. The largest increase was in Central Africa, where inward FDI stock increased from 29.5 per cent of GDP in 2000 to 55.0 per cent in 2021. In South Africa, inward FDI stock was equivalent to 45.0 per cent of GDP in 2021. On the other hand, inward FDI stock in West Africa in 2021 was equivalent to only 28.0 per cent of GDP.

Figure VIII: Inward foreign direct investment stock in the five African subregions, 2000–2021 (Billions of United States dollars)



Source: *Author's elaboration on the basis of UNCTAD (n.d.).*

Figure IX: Inward foreign direct investment stock, expressed as a percentage of gross domestic product, selected groups of countries, regions and subregions 2000–2021 (Percentage of GDP)



Source: *Author's elaboration on the basis of UNCTAD (n.d.).*

According to data available in the UNCTADstat database (UNCTAD, n.d.), inward FDI stock and FDI inflows to Africa accounted for only 5.3 per cent and 2.3 per cent, respectively, of global inward stock and inflows. The establishment of the African Continental Free Trade Area has facilitated the provision

of FDI in African economies including, in particular, intra-African FDI. Most FDI flows to Africa originate in European countries, largely because of colonial and cultural ties between Africa and Europe (Kox and Rojas-Romagosa, 2020). Analysis by Morgan, Farris and Johnson (2022) of data made available in the World Bank Group harmonized bilateral FDI database reveals that European FDI stock in Africa increased from $106 billion in 2004 to $320 billion in 2018. Between 2014 and 2018, the most important European sources of FDI inflows to African economies were the Netherlands and France, which together provided some 24 per cent of FDI in Africa. In that regard, it should be noted that, since the 2004–2008 period, the Netherlands has increased its share of total FDI provided to African countries from 6 per cent to 16 per cent.

In 2014–2018 period, Asia was the second largest provider of FDI to Africa. Added together, FDI from Asia, Africa and Latin America and the Caribbean accounted for 44 per cent of all FDI stock in Africa during that period. China was the most important Asian investor and, between 2004–2008 and 2014–2018, increased its share of total FDI in Africa from 2 per cent to 5 per cent. Overall, intra-African FDI stock increased from $18 billion in 2004–2008 to $80 billion in 2014–2018. In the latter period, the major sources of regional FDI were, in decreasing order, South Africa, Mauritius, Kenya, Togo and Nigeria which, together, accounted for some 75 per cent of all FDI originating within Africa. Among African sources of FDI, South Africa was the most important, and increased its FDI flows to the other African economies from an average of $12 billion in 2004–2008 to an average of $34 billion in 2014–2018. South African FDI flows support a wide range of economic activity across the continent, and particularly in Ghana, Mauritius, Mozambique, Namibia and Zimbabwe. Focusing on greenfield FDI, Morgan, Farris and Johnson (2022) show that China, one of the major sources of cross-border investment flows in Africa, invested more than $71 billion across the continent between 2016 and 2020.

Affiliates of foreign companies can facilitate access to global value chains for local companies, and particularly for small and medium-sized enterprises. Furthermore, linkages to multinational enterprises are a key channel through which local companies can benefit from FDI spillovers (Alfaro, 2017). Although small and medium-sized enterprises can access global value chains directly by trading intermediate inputs "at arm's length", partnering with affiliates of multinational enterprises can provide many more opportunities to engage in those value chains. As highlighted in OECD (2021) and World Trade Organization (WTO) (2022), small companies often find it extremely challenging to access international markets. There are several reasons for this: firstly, they tend be concentrated in sectors in which international trade plays a minor role, including retail, construction and services. Moreover, there are often very few small companies in sectors oriented to international markets that require large scale tangible assets and related investments, such as heavy industry and large-scale manufacturing. Secondly, small companies must deal with internal and external barriers to internationalization. Examples of internal barriers include limited information on international market opportunities and risks, weak managerial capacity and low levels of technological knowledge. Examples of external barriers include burdensome domestic and foreign regulations, inadequate infrastructure and weak institutional frameworks.

Small and medium-sized enterprises may therefore find it easier to connect to global value chains by establishing either vertical FDI linkages (supplying to or sourcing from local affiliates of foreign investors) or as second-tier suppliers (supplying intermediate inputs to larger domestic companies that are direct suppliers of affiliates of foreign multinationals) (OECD-UNIDO, 2019). Linkages among small and medium-sized enterprises to multinational enterprises with a presence in local markets can take different forms, including: (a) supply agreements that provide for supplying/sourcing intermediates to/from multinational enterprise affiliates; (b) licensing agreements, namely a licence allowing small or medium-sized enterprises to sell goods under multinational enterprise brands or trademarks or to use patented technology; and (c) research and development agreements, namely agreements that allow

small or medium-sized enterprises to collaborate with multinational enterprise affiliates to generate product and process innovation (OECD, 2021).

Those linkages are more likely to occur when the institutional distance between the foreign investor's home country and the home country of the micro-, small or medium-sized enterprise is low (Pérez-Villar and Seric, 2015), as this can facilitate efforts by affiliates of multinational enterprises from economies from the global South (southern economy multinational enterprises) to deal with and address challenges related to local formal and informal bureaucratic procedures in Southern African economies.

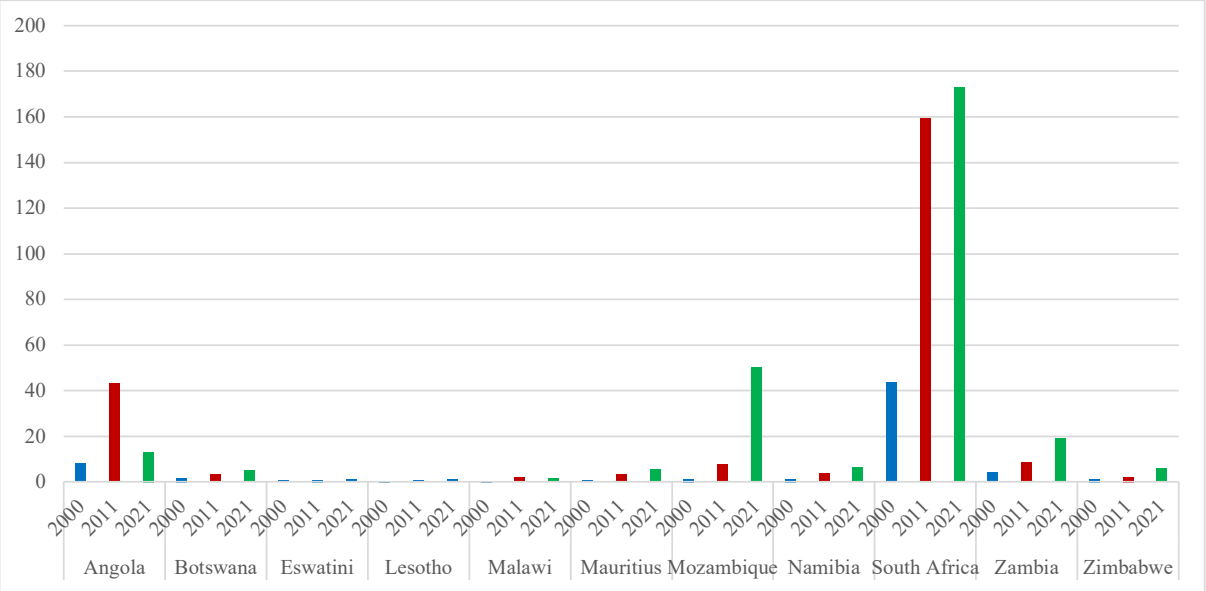
Box: The UNCTAD–Eora Global Value Chain database

The UNCTAD–Eora Global Value Chain database provides key global value chain indicators, including domestic value added, foreign value added and indirect value added, for 189 countries between 1990 and 2018. Data from 1990 to 2017 are sourced from Eora multi-region input-output tables; data for 2018 are provisional "beta" results based on IMF World Economic Outlook data. The methodology followed to build the indicators is explained in Casella and others (2019).

1.2 Foreign direct investment, global value chains and micro-, small and medium-sized enterprises in Southern Africa: some details

Figure X illustrates that, in 2021, the economies in Southern Africa with the largest inward FDI stocks were: South Africa ($173 billion), which accounted for 17 per cent of all inward FDI stock in Africa, Mozambique ($50 billion), Zambia ($19 billion), Angola ($13 billion), Namibia ($6 billion) and Zimbabwe ($6 billion). The countries with the largest increases in inward FDI stock in the decade prior to 2021 were Mozambique, where FDI increased by 6.5 times, Zimbabwe (2.8 times), Zambia (2.3 times) and Mauritius (1.8 times). On the other hand, inward FDI stock increased in Angola and Malawi by only 0.8 times and 0.3 times the value reported in 2011, respectively.

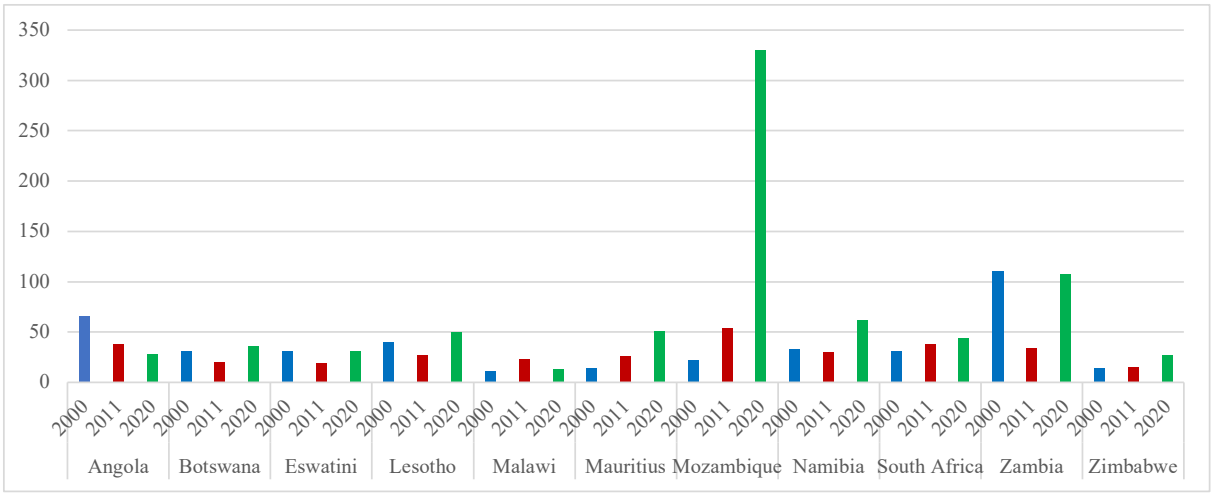
Figure X: Inward foreign direct investment stock, countries in Southern Africa, 2000–2021 (Billions of United States dollars)



Source: *Author's elaboration on the basis of UNCTAD (n.d.).*

As shown in Figure XI, the Southern African countries in which inward FDI stock was equivalent to the largest share of GDP in 2020 were: Mozambique (330 per cent), Zambia (106 per cent), Namibia (62 per cent), Mauritius (51 per cent), Lesotho (50 per cent) and South Africa (44 per cent). The countries where FDI inflows were equivalent to a more modest share of GDP were: Angola (28 per cent), Zimbabwe (27 per cent) and Malawi (13 per cent). The countries with the largest growth in FDI inflows between 2000 and 2020, expressed as a proportion of GDP, were Mozambique (307 per cent), Mauritius (37 per cent) and Namibia (29 per cent). Attention should also be drawn to the situation in Angola, where FDI inflows expressed as a proportion of GD fell by some 37 percentage points between 2000 and 2020.

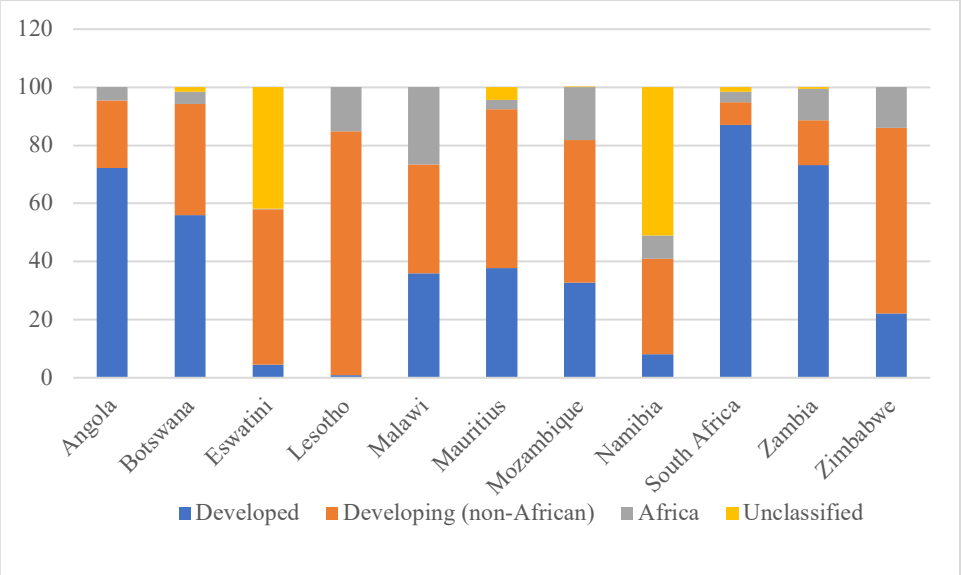
Figure XI: Inward foreign direct investment stock expressed as a percentage of GDP, countries in Southern Africa, 2000–2020



Source: *Author's elaboration on the basis of UNCTAD (n.d.).*

Figure XII illustrates the origin of inward FDI stocks in Southern African economies in 2020 on the basis of data compiled by IMF, which, for every country in the world provides inward direct investment positions from counterpart economies. Developed economies were the origin of most inward FDI stock as follows: South Africa (87 per cent), Zambia (73 per cent), Angola (72 per cent) and Botswana (56 per cent); non-African developing economies were important foreign investors in Lesotho, where they accounted for 84 per cent of FDI stock, Zimbabwe (64 per cent), Mauritius (55 per cent) and Eswatini (54 per cent). Intra-African FDI was particularly important in Malawi (27 per cent of inward FDI stock), Mozambique (18 per cent), Lesotho (15 per cent) and Zimbabwe (14 per cent).

Figure XII: Origin of inward foreign direct investment stock, countries in Southern Africa, 2020 (Percentage)



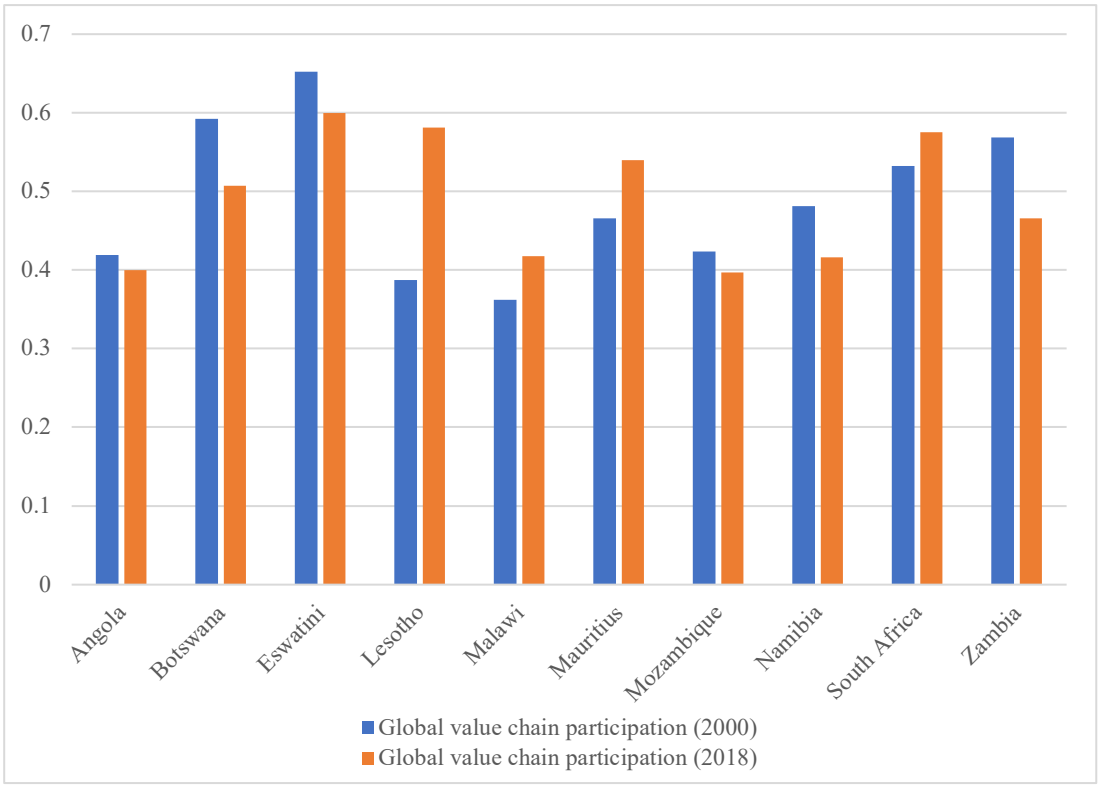
Source: *Author's elaboration on the basis of IMF (n.d.), data for the year 2020.*

Note: *In some cases, IMF uses outward FDI values reported by the counterpart economy, as inward values are unavailable.*

Figures XIII shows the global value chain participation rates of countries in Southern Africa in 2000 and 2018. The economies in Southern African that were most integrated into global value chains in 2018 were Eswatini, Lesotho and South Africa, where trade in intermediate inputs accounted for some 60 per cent of gross exports. The Southern African economies with the lowest global value chain participation rates were Angola, Malawi, Mozambique and Namibia, where the volume of trade in value added was approximately 40 per cent of gross exports. Between 2000 and 2018, a number of countries increased their participation in global value chains (particularly Lesotho, by 50 per cent, and Mauritius, by around 16 per cent), while others reduced it (particularly Zambia, by 18 per cent, and Botswana, by 14 per cent).

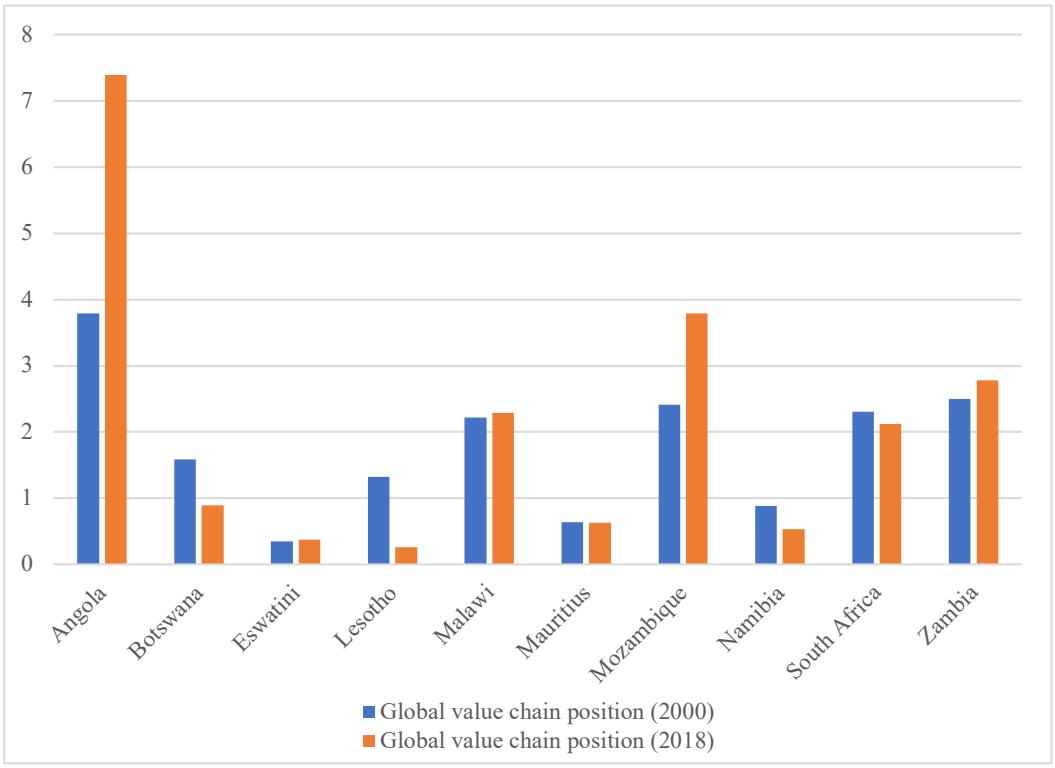
Figure XIV shows the overall position in global value chains of selected countries in Southern Africa in 2000 and 2018. In 2018, the most upstream economies were Angola, Mozambique and Zambia, where the global value chain upstream component was, respectively, 7.4, 3.8 and 2.8 times the downstream component. Moreover, the same economies were those in which the upstream component had increased most significantly since 2000 compared with the downstream component. The most downstream economies in the subregion were Lesotho, Eswatini and Namibia, where the upstream component was, respectively, 0.26, 0.4 and 0.5 times the downstream component. Botswana, Lesotho and Namibia were the economies with the largest increase of value added imports relatively to value added exports.

Figure XIII: Global value chain participation rates, countries in Southern Africa, 2000 and 2018 (Percentage)



Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.).*

Figure XIV: Global value chain positions, countries in Southern Africa, 2000 and 2018



Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.).*

Table 1 and table 2 show the origin and destination of the value added traded by Southern African economies in 2018. Focusing on value added origins, table 1 shows that the countries where foreign value added accounted for the largest shares of total value added exported were Lesotho (48.3 per cent), Mauritius (31.6 per cent) and Namibia (24.5 per cent). In terms of their GDP, those are among the smallest economies in the Southern Africa subregion and are therefore more likely than larger economies to be heavily reliant on intermediate inputs originating abroad in order to produce goods for export. On the other hand, Angola, Botswana and Zambia were the countries in Southern Africa with the lowest share of foreign value added in their exports (about 9 per cent). In all countries in the subregion with the exception of Angola and South Africa, foreign value added originated in other developing economies. China is among the top five foreign countries of origin in all countries in the subregion, and is a major source of foreign value added in Lesotho and Mauritius. Another Asian country that is a major source of foreign value added in Southern Africa is India, which provides significant value added for Angola, Botswana, Malawi, Mauritius, Mozambique and Zambia. Important sources of foreign value added in Europe include the United Kingdom (for Botswana, Eswatini, Malawi, Namibia, South Africa and Zambia), Germany (for Eswatini, Mauritius, Namibia and South Africa) and Portugal (for Angola and Mozambique). The United States of America is an important value added origin country for Angola, Eswatini, Mauritius, Namibia and South Africa. It should also be noted that South Africa is the main regional source of foreign value added and is the top foreign origin for Botswana, Eswatini, Mozambique and Namibia.

The destination of value added exported by most Southern African economies is shown in table 2.[4] All the countries considered in the table export a large share of value added to developed economies, with the largest shares reported by Mauritius (88 per cent of total value added), Botswana (83 per cent), and Malawi (80 per cent). Those countries' primary exports include raw materials and agricultural products (UNCTAD, 2021). Germany is a major destination for the exports of all the countries of the subregion, while Belgium and the Netherlands are among the top five destinations for 7 out of the 10 African countries considered in table 2. Other important destinations are the United Kingdom (for Botswana, Eswatini, Lesotho, Malawi, Mauritius and South Africa) and France (for Angola, Eswatini, Mauritius and Namibia). Among emerging economies, China is a major destination for exports from Angola, Mozambique, South Africa and Zambia.

4 Zambia has been excluded from the table due to the limited data on that country available in the UNCTAD-Eora Global Value Chain database.

Table 1: Total value added exported and its origin, selected countries in Southern Africa, 2018

	Angola	Botswana	Eswatini	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Zambia
Total value added exported (United States dollars)	22 000 000	1 532 944	625 657	296 182	962 992	2 923 775	938 621	1 695 708	106 000 000	4 088 774
Foreign value added exported (United States dollars)	1 898 600	132 944	182 692	143 175	127 115	923 913	94 613	0.00	22 397 800	368 807
Foreign value added exported (percentage)	8.63	8.67	29.20	48.34	13.20	31.60	10.08	24.51	21.13	9.02
Origin of foreign value added exported, by origin country development level										
Developing countries (percentage)	41.80	70.00	73.00	55.00	71.82	66.40	72.90	75.08	32.73	65.90
Developed countries (percentage)	58.20	30.00	27.00	45.00	28.18	33.60	27.10	24.92	67.27	34.10
Origin of foreign value added exported, by region/subregion										
East and Southern Africa (percentage)	4.21	41.68	50.76	11.14	36.58	4.96	29.22	60.02	1.74	26.35
West and Central Africa (percentage)	1.13	1.04	0.92	1.92	1.32	0.62	1.04	0.82	1.15	1.14
East Asia and the Pacific (percentage)	23.03	21.80	15.55	58.07	18.83	44.93	34.51	11.71	28.10	20.83
Europe and Central Asia (percentage)	37.52	19.48	15.50	12.82	18.00	19.05	18.57	17.10	43.09	21.51
Latin America and the Caribbean (percentage)	10.79	3.27	4.57	6.07	3.51	1.80	2.88	2.41	3.62	3.13
Middle East and North Africa (percentage)	4.84	2.44	3.74	3.54	4.09	2.87	2.66	2.31	6.12	6.04
North America (percentage)	13.72	4.73	6.37	2.41	3.79	4.29	2.91	3.82	12.20	5.78
South Asia (percentage)	4.75	5.57	2.59	4.04	13.87	21.49	8.23	1.81	3.99	15.22
Top five origin countries										
1	United States of America	South Africa	South Africa	China	United Republic of Tanzania	China	South Africa	South Africa	Germany	India
2	China	China	United States of America	Taiwan province of China	India	India	China	Germany	China	South Africa
3	Portugal	United Kingdom	China	Republic of Korea	South Africa	United States of America	India	China	United States of America	China
4	Brazil	India	Germany	Japan	China	Germany	Portugal	United States of America	United Kingdom	Democratic Republic of the Congo
5	India	Viet Nam	United Kingdom	United Republic of Tanzania	United Kingdom	South Africa	Germany	United Kingdom	Japan	United Kingdom

Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.).*

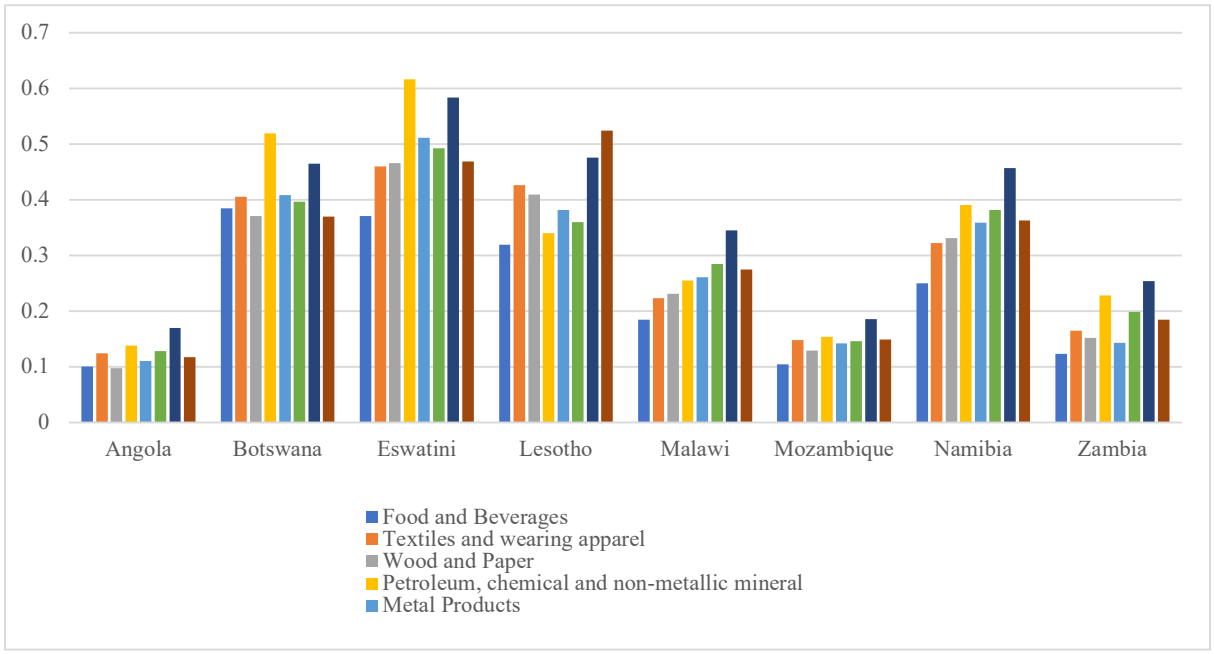
Table 2: Destination of value added exported, selected countries in Southern Africa, 2018

Destination of value added exported	Angola	Botswana	Eswatini	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Zambia
By destination country development level										
Developing (percentage)	37.85	17.06	25.30	27.99	20.05	12.27	33.81	23.65	21.85	41.02
Developed (percentage)	62.15	82.94	74.70	72.01	79.95	87.73	66.19	76.35	78.15	58.98
By region/subregion										
East and Southern Africa	0.47	3.96	2.43	2.22	7.94	2.62	19.31	11.67	1.74	14.89
West and Central Africal	0.05	0.46	2.53	2.36	0.64	0.38	0.70	0.86	0.09	0.21
East Asia and the Pacific	42.97	11.12	30.26	20.08	13.77	8.92	13.06	10.96	26.47	34.01
Europe and Central Asia	41.88	58.21	56.48	61.13	69.40	82.70	60.14	67.41	60.81	41.63
Latin America and the Caribbean	2.78	2.49	2.37	4.56	1.50	1.38	2.09	1.98	2.88	1.39
Middle East and North Africa	0.63	19.72	1.84	3.99	1.59	1.31	1.59	1.07	0.98	1.58
North America	10.67	2.86	3.03	4.21	4.74	2.23	1.86	5.64	5.04	2.69
South Asia	0.55	1.17	1.07	1.43	0.42	0.45	1.25	0.41	1.99	3.59
Top five destination countries										
1	China	Israel	Netherlands	Belgium	Netherlands	United Kingdom	Germany	Germany	Germany	China
2	United States of America	United Kingdom	Republic of Korea	Germany	Germany	France	South Africa	Angola	Japan	South Africa
3	Belgium	Germany	Germany	Russian Federation	South Africa	Germany	Belgium	Netherlands	United Kingdom	Germany
4	France	Norway	France	United Kingdom	Belgium	Belgium	Netherlands	Belgium	Netherlands	Japan
5	Germany	Belgium	United Kingdom	Belarus	United Kingdom	Netherlands	China	France	China	Netherlands

Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.).*

Figure XV illustrates the percentage share of imported (foreign) value added in manufacturing gross exports for selected economies in Southern Africa.[5] The petroleum, chemical and non-metallic mineral sector shows the largest share of foreign value added in Eswatini (62 per cent of exports), Botswana (52 per cent) and Namibia (39 per cent). The transport equipment sector shows the largest share of foreign value added in Eswatini (58 per cent), Botswana and Namibia (both 46 per cent). As for other manufacturing sectors, the share of imported value added is highest in Botswana (38.4 per cent) and Eswatini (37 per cent) in the food and beverage sector, in Eswatini (46 per cent) and Lesotho (43 per cent) in the textiles and wearing apparel sector, in Eswatini (47 per cent) and Lesotho (41 per cent) in the wood and paper sector, in Eswatini (51 per cent) and Botswana (41 per cent) in the metal products sector, and in Eswatini (49 per cent) and Botswana (40 per cent) in the electrical and machinery sector. In non-manufacturing sectors[6], of note is the high dependence on foreign value added of the mining and quarrying sector in Eswatini (73 per cent) and the maintenance and repair sector in Lesotho (77 per cent). The recycling sector reports the largest imported value added share in Lesotho (68 per cent) and Eswatini (61 per cent).

Figure XV: Share of foreign value added in manufacturing gross exports, selected countries in Southern Africa, 2015 (Percentage)



Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.).*

The UNCTAD-Eora Global Value Chain database does not contain data on foreign value-added dependence at sectoral level for Mauritius and South Africa, but does provide data at the product level. Table 3 reports for those two countries the products with the largest foreign value added share in exports. In Mauritius most exports with a significant foreign value added share are commodities, including metal ores, crude petroleum and natural gas, forestry and logging products, basic metals and basic chemicals. Some exports with a high foreign value added share are produced by manufacturing sectors (these include textiles, products made of wood, cork, straw and plaiting materials, fabricated metal products, and radio, television and communications equipment) and services (water and air transport services). Conversely, in South Africa, most products with a large share of imported value added are produced

5 South Africa, Mauritius and Zimbabwe have been excluded from the figure due to the absence or limited availability of reliable data.

6 The table in section A of the annex to this report contains data on the foreign share of value added in gross exports, including for primary economic sectors and services.

by manufacturing sectors and, particularly the automotive sector (motor vehicles, engines and motor vehicles parts) and chemicals (pesticides, paints and soap products).

Table 3: Exports with the largest share of foreign value added, Mauritius and South Africa, 2015

Mauritius		South Africa	
Product	per cent	Product	per cent
Wastes or scraps	57.80	Motor vehicles	48.24
Metal ores	55.25	Pesticides	37.78
Crude petroleum and natural gas	53.61	Paints	30.41
Forestry and logging products	52.26	Mining machinery	30.19
Textile articles other than apparel	51.13	Engines	30.08
Office, accounting and computing machinery	48.25	Motor vehicles parts	29.08
Basic metals	38.97	Radio and television products	27.37
Products made of wood, cork, straw and plaiting materials	38.05	Insulated wire and cable	26.54
Water transport services	36.34	Soap products	25.79
Other minerals	36.21	Containers made of paper	25.78
Radio, television and communication equipment	35.45	Oil and fat products	25.53
Fabricated metal products, except machinery and equipment	35.06	Animal feeds	25.41
Basic chemicals	34.89	Jewellery	25.15
Air transport services	34.17	Textile products	25.05

Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.).*

Note: *Re-imports, which, if taken into consideration, would rank first in both countries, are not included in this table.*

Table 4 shows the number and the density of micro-, small, medium-sized and large business enterprises in selected countries in Southern Africa. The data used are taken from the MSME Economic Indicators database (SME Finance Forum, n.d.). The countries with the largest number and density of micro-, small and medium-sized enterprises (measured by the number of enterprises per 1,000 people) are, in decreasing order, Mauritius, Malawi, South Africa and Zimbabwe.

Table 4: Number of micro-, small, medium-sized enterprises in selected economies in Southern Africa

Country	Last available year	No. of enterprises						Enterprises per 1 000 people			
		Micro-	Small	Medium	Small and medium	Micro-, small and medium	Large	Micro-	Small and medium	Micro-, small and medium	Large
Angola	2016	14 428	7 836					0.48			
Botswana	2016	7 376	6 077	438	6 515	13 891	726	3.22	2.84	6.06	0.32
Eswatini	2017	12 336	685	685	1 370	13 707		9.02	1.00	10.02	
Lesotho	2016	7 299	935	500	1 435	8 734	110	3.27	0.64	3.91	0.05
Malawi	2012					987 480				61.34	
Mauritius	2013	139 030	31 970	1 190	33 160	172 190	1 230	110.46	26.35	136.80	0.98
Mozambique	2015		39 873	1 798	41 671	41 671	1 338		1.49	1.49	0.05
South Africa	2017	302 940	510 819	131 008	641 827	944 767		5.34	11.32	16.66	
Zimbabwe	2012	654 224	108 286	19 278	127 564	781 788		44.47	8.67	53.14	

Source: *Author's elaboration on the basis of SME Finance Forum (n.d.)*

Note: *No data are available for the number of business enterprises in Namibia or Zambia.*

2. Theoretical background

Since the publication of the seminal works by Rodríguez-Clare (1996), Alfaro and Rodríguez-Clare (2004) and Alfaro and others (2004), considerable attention has been given to the importance of linkages that multinational enterprises can establish with local producers in developing countries. By demanding a larger and more complex set of intermediate inputs from domestic companies, multinational enterprises can trigger positive technological change in host economies and foster the conditions for the production of more sophisticated products at more competitive prices. Positive effects can also be triggered among local competitors in similar sectors; for example, multinational enterprise workers may leave their jobs and take up employment with other (domestic) companies or leave multinational enterprises to start their own business, bringing their specialized knowledge and expertise with them. Furthermore, multinational enterprises can cooperate with local institutions to provide training for local workers.

Workers at multinational enterprises may, moreover, interact on a regular basis with workers at other domestic companies performing similar jobs, facilitating a certain degree of informal knowledge transfer to local businesses. Nevertheless, the effects of linkages can vary according to the complexity of goods that multinational enterprises produce, the cost associated with communications between multinational enterprise headquarters and its foreign-based affiliates, and the extent of technological similarities between the home country of a multinational enterprise and the countries where its foreign affiliates have been established.

Recent analysis by Abebe, McMillan and Serafinelli (2022), focusing on the Ethiopian manufacturing sector, finds that the arrival of a foreign company increases the total factor productivity of domestic companies operating in the same district by 11 per cent over the following four years. The positive productivity effect is driven by linkages that foreign companies establish with their domestic counterparts. Using survey data, the authors reveal that one third of the domestic companies studied were linked to foreign companies, especially in the form of competition in the output market and in sourcing inputs or workers from the foreign plant. Such linkages were found to drive technology upgrades in the domestic economy.

According to the World Bank (2018), linkages between micro-, small and medium-sized enterprises on the one hand and multinational enterprises on the other can result in mutually-beneficial arrangements. On the one hand, multinational enterprises establish linkages in order to reduce production costs, increase access to local tangible and intangible assets, enhance the specialization and flexibility of foreign affiliates and adapt technologies and products to local economic conditions. On the other hand, micro-, small and medium-sized enterprises can benefit from such linkages: they can increase their sales and profits by accessing new markets; they can start producing new and more and more complex products, as required by multinational enterprises; and they can establish more stable commercial relationships with buyers and suppliers of foreign origin. However, micro-, small and medium-sized enterprises can face challenges as a result of weak internal and external factors: on the one hand, insufficient technological and managerial capabilities can impede local companies from supplying foreign firms in a cost-efficient way and meet quality standards; on the other hand, inadequate transport and communication infrastructure and poorly-developed financial markets can significantly reduce the chance that local firms will successfully establish linkages with foreign buyers. It is therefore important to establish conditions for stable cooperation, as this increases the likelihood of a positive long-term impact on the development of host economies. Prashantham and Birkinshaw

(2020) conclude that long-term, mutually-beneficial relationships occur in two circumstances, namely when multinational enterprises focus on exploitation-oriented supply chain activities and the small or medium-sized enterprise is oriented towards the domestic market, and when multinational enterprises focus on exploration-oriented innovation activities and the small or medium-sized enterprise is oriented towards international markets.

Linkages can take different forms. Smallbone (2006) and Ndemo and Smallbone (2015) distinguish among five types of linkages between multinational enterprises and small and medium-sized enterprises: (a) backward linkages, by which multinational enterprises source components, materials and services from local suppliers; (b) forward linkages with domestic customers (such as outsourced marketing outlets and after-sales services); (c) linkages with local competitors, by which multinational enterprises can set new and more challenging standards for local competitors; (d) linkages to technological partners (through joint ventures, licensing agreements or strategic alliances); and (e) other spillover effects (such as when trained workers move from multinational enterprises to local enterprises). The different types of linkage can generate a range of effects in the domestic economy.

2.1 Backward linkages

Backward linkages can generate pecuniary externalities in the production of intermediate inputs. On the one hand, multinational enterprises increase productivity by employing more specialized inputs; on the other hand, demand by multinational enterprises for a larger variety of higher-quality intermediate inputs can spur local suppliers to develop capabilities and comparative advantages in the production of more sophisticated final goods, which can lead to higher wages for workers and higher productivity (Rodríguez-Clare, 1996; Alfaro and Rodríguez-Clare, 2004).

Compared to the other types of linkage, backward linkages are more likely to support the development of host economies (Havranek and Irsova, 2011; Irsova and Havranek, 2013). In fact, there is significant evidence of their effectiveness (Javorcik 2004; Javorcik and Spatareanu, 2009; Jordaan, 2017; Newman and others, 2015; Rojec and Knell, 2018). Furthermore, Sánchez-Martín, Piniés and Antoine (2015), using World Bank data on developing countries, investigate the determinants of backward linkages. Their main findings are the following: (a) local sourcing is lower when the foreign investor is export-oriented and has access to foreign technology, or when foreign subsidiaries are wholly-owned by the foreign investor; (b) there can be significant differences among the sectors in which business enterprises operate: foreign investors tend to rely more on local intermediates in the food, automotive and wood sectors, and less in the textiles and electronics sectors; (c) the size of the domestic economy is also relevant: larger economies can mean that there is a larger availability of local suppliers. Amendolagine and others (2013, 2019) and Amendolagine and Prota (2021) shed light on the firm-, sector- and country-level determinants of backward linkages within the manufacturing sectors of 19 sub-Saharan African countries, obtained on the basis of data contained in UNIDO (2012). Amendolagine and others (2013) investigate the characteristics of foreign investors and their investments, and how these can shape the intensity of backward linkages. At the investor level, they find that stand-alone investors, namely those with the highest management autonomy, have greater propensity to source intermediates from local suppliers. Diaspora investors also seem to be in a favourable position to source local inputs, due to their knowledge of both origin and destination countries of the investment. However, a large proportion of skilled workers in the foreign company, (providing firm-specific intangible assets), seems to reduce the intensity of backward linkages, given the larger technological distance between the business enterprise and potential local suppliers. As for investment characteristics, it is apparent that the presence of local partners can enhance the supplying relationship with domestic companies, while horizontal investments,

namely those made with the aim of serving the domestic market, are more likely to rely on local inputs. The explanation of the latter result is twofold: first, for investments targeting local markets, it can be more efficient to employ intermediates with high local content; second, host-country governments are often able to negotiate larger local content requirements when the investments specifically target their markets. The age of the investment also affects the intensity of backward linkages, but in a non-linear fashion: longer experience in the local market increases the awareness of local opportunities and facilitates local sourcing; however, local intermediate inputs are less important for well-established foreign investors, who tend to be more reliant on their internal resources.

At the country level, local sourcing is denser in economies that are: (a) relatively large, due to the presence of a larger number of potential suppliers; (b) less reliant on natural resources, due to the reluctance of resource-seeking foreign investors to source local intermediate inputs and employ local demand; (c) endowed with effective institutions and, in particular, with lower bureaucratic costs and legal systems that facilitate the enforceability of contracts. Amendolagine and others (2019) extend the analysis by adding the global value chain participation of countries and sectors receiving FDI as a potential determinant of backward linkages. On the basis of Koopman, Wang and Wei (2010, 2014), they elaborated two global value chain indicators: one measuring the intensity of trade in intermediate inputs with respect to total exports, and the other measuring the position along global value chains, that is to say the ratio of exports of intermediate goods to imports of intermediate inputs. It was discovered that both indicators can significantly shape the propensity of foreign investors to source local intermediate inputs. Increased participation of African economies[7] in global value chains, through more intense trade in intermediate inputs, correlates with a higher probability that backward linkages will be established with foreign entrepreneurs. This is because participation in global value chains can enhance capabilities and productivity of local firms by exposing them to greater competition, knowledge flows and product complexity (Paus and Gallagher, 2008; Farole and Winkler, 2014; Del Prete, Giovannetti and Marvasi, 2017). Furthermore, Nguekeng and Mignamissi (2023) find that an increase in global value chain participation can promote industrialization. The relative position of host-country sectors in global value chains seem to have an impact on the intensity of local sourcing. What is more, upstream specialization increases the chances of producing intermediate inputs that can be bought by foreign companies, while foreign investors sourcing local intermediates tend to provide more assistance to local suppliers within more upstream sectors, including by improving the quality of products, enhancing production processes and supporting capacity-building for workers. The latter result is likely to be due to the higher risk of failure in more upstream stages of the production chain (Costinot, Vogel and Wang, 2013). Amendolagine and Prota (2021) focus on the role of institutional quality and bilateral investment treaties between FDI origin and destination countries in determining opportunities for backward linkages. While confirming the positive impact of effective local institutions, they also confirm research by Ginsburg (2005) and Neumayer and Spess (2005) and conclude that bilateral investment treaties can act as their substitute, giving a larger contribution to local sourcing in contexts with low institutional quality. In addition, the larger the difference in development levels between the origin and destination country of foreign investors, the larger the positive impact of bilateral investment treaties. Jordaan, Douw and Qiang (2020) review research conducted on the macro- and microfactors that enhance the extent of backward linkages between multilateral enterprises and local suppliers and the likelihood of related positive spillovers for local economies. The positive effect of backward linkages depends on several factors, including the characteristics of the investment (entry mode, motivation, foreign ownership share and the geographical, cultural and institutional distance from the host country), the characteristics of foreign affiliates (size, age and sector), and the characteristics of domestic suppliers (size, efficiency, experience, human capital endowment, export orientation and research and development activities). The context

7 The dataset used also includes Viet Nam as a benchmark for African economies.

in which linkages are established is also important. Significant factors include the technology and human capital endowments of the business enterprises concerned, the size of the local market, the agglomeration of economic activity or lack thereof, the degree of trade openness, the quality of relevant institutions and the efficiency of credit markets.

Focusing on the effects of backward linkages, Görg and others (2009), analysing the situation of Irish companies, find that the establishment of those linkages reduces the wage elasticity of labour in multinational enterprises, making the jobs generated by foreign companies more stable. This is because locally-sourced inputs tend to be more complementary to local workers than imported inputs. Coniglio, Hoxhaj and Seric (2017) emphasize that foreign investors in sub-Saharan Africa tend to employ a larger share of domestic workers when they have local partners and linkages (of either backward or forward type) to local companies; this effect is more pronounced when the economic distance and the geographical distance are, respectively, longer and shorter. Alfaro-Urena, Manelici and Vasquez (2022) shed further light on the effects of multinational enterprise backward linkages to local suppliers by analysing the situation of companies in Costa Rica, concluding that domestic companies supplying their first multinational enterprise buyer tend to experience an increase in sales and total factor productivity after four years. Furthermore, while they tend to reduce the supply of outputs that they provide to other buyers in the short term due to capacity constraints, domestic companies tend to serve a larger number of buyers, also of larger size and with more stable contracts, in the mid-term. Particularly significant benefits often accrue in manufacturing sectors, particularly when buyers are small business enterprises and are based in countries with relatively high GDP per capita and better than average management practices. Survey data reveal that once they start to supply multinational enterprises, suppliers often improve their managerial and organizational practices, product quality, reputation and product range. In another work, in which the authors look at the situation of business enterprises in Costa Rica, Leiva, Monge Rodríguez and Rodríguez-Álvarez, (2017) show that specific benefits accrue from backward linkages to local small and medium-sized enterprises, namely improvements in average wages, employment and exports. In an empirical investigation on linkages between multinational enterprises and micro-, small and medium-sized enterprises in Kenya, Ndemo and Smallbone (2015), find that the strongest positive spillovers come from backward linkages. This is due to the transfer of knowledge and the technical assistance provided by multinational enterprises to local suppliers with a view to improving the quality of the products and services they provide. The authors interviewed multinational enterprise affiliates, three in the services sector (Shell BP, Safaricom/Vodafone and American International Group) and two in the manufacturing sector (Unilever and General Motors). Those companies only outsource administrative and business services, such as cleaning, legal, maintenance, canteen, health and market research services, to small and medium-sized enterprises. However, multinational enterprises in the manufacturing sector also claim to outsource assembly operations, warehousing and transport services to small and medium-sized enterprises. In terms of innovation performance, Ha (2023) analysing data from the Republic of Korea, reveals that the backward linkages established by multinational enterprises can have a negative impact on local suppliers. However, the negative impact is weaker if suppliers operate in highly dynamic contexts, which enhance their opportunities for interactive learning.

Backward linkages can also trigger positive effects on domestic economies that extend beyond the activities of local suppliers. Kee (2015), focusing on the Bangladeshi garment sector, explores one further mechanism by which positive spillovers through backward linkages can affect economies. This involves the sharing of local inputs between multinational enterprise affiliates and domestic companies: foreign firms often require a large variety of high-quality inputs from their local suppliers, and those inputs can be shared with other domestic companies, increasing their product scope and productivity. Interestingly, a similar effect is observed in sectors in which there is limited activity by foreign buyers.

Further benefits from backward linkages can be specific to the country of origin of multinational enterprises. Amendolagine, Coniglio and Seric (2017), using survey data collected in 19 sub-Saharan African countries, find that investors from the global North generate, on average, more backward linkages to local suppliers than other investors. However, investors from emerging markets (the authors focus on Brazil, the Russian Federation, India, China and South Africa) are more likely to sign long-term contracts with local suppliers and, moreover, to transfer knowledge to them. Njikam and Leudjou (2019), analysing firm-level data on the manufacturing sector in Cameroon, find that the increased presence of American and European affiliates in downstream sectors reduces the productivity of local firms operating in supply industries; however, an increased presence of Asian affiliates in downstream sectors has a positive impact on the productivity of local suppliers. Furthermore, the positive impact stemming from backward linkages will vary depending on the absorptive capacity of local companies.

2.2 Forward linkages

Multinational enterprise affiliates can, moreover, promote technological transfers to domestic companies by providing them with a larger variety of higher-quality intermediate inputs, which can in turn allow local business enterprises to develop comparative advantages in more complex product areas. Linkages in which foreign companies are themselves suppliers to domestic counterparts are called "forward linkages". Focusing on Kenyan domestic small and medium-sized enterprises, Ndemo and Smallbone (2015) highlight the fact that affiliates of multinational enterprises tend to use those enterprises as intermediaries to facilitate their access to domestic markets; indeed, multinational enterprises may make significant investments in order to develop marketing outlets, such as automobile dealerships, gas stations, restaurant chains and travel agencies. Such investments, which can help foreign companies increase their market share and develop standardized products for the countries in which they invest, can also support the overall development of local small and medium-sized business enterprises.

2.3 Linkages to local competitors

Boly and others (2015), focusing on the performance of domestic companies operating in 19 sub-Saharan countries, find that the entry of foreign firms into domestic markets can foster a Schumpeterian-type structural process, leading to the expansion of the largest and most productive local players. Local enterprises that are likely to benefit from foreign competition adopt an imitation strategy as a reaction to the entry of foreign players, producing similar products and adopting similar marketing methods and production technologies. On the other hand, less productive companies are often negatively affected by the ensuing competition. Alfaro and others (2004), investigating the impact of both vertical and horizontal linkages on manufacturing in several South American economies, find evidence of negative horizontal spillovers, which they ascribe to the more intense competition occurring in local companies and the hiring of highly-productive workers by foreign competitors. Negative effects on local small and medium-sized enterprises stemming from the presence of large foreign affiliates are also identified by Ndemo and Smallbone (2015), who find that local competitors in Kenya can be squeezed out of the market if they are unable to compete in terms of quality and price with multinational enterprises. The authors show, for example, that the introduction of low-cost mechanized production has allowed foreign companies in the soap industry to sell their products at lower prices than those of domestic companies.

Positive effects stemming from horizontal linkages are reported by Görg and Strobl (2002) and Abebe, McMillan and Serafinelli (2022). In the former paper, the authors conduct an empirical analysis of Irish manufacturing companies and conclude that foreign investors foster competition and efficiency in both the final goods and inputs markets, leading to the entry of new local companies, particularly in

economically innovative sectors. In the latter paper, the authors finds that multinational enterprise affiliates in the Ethiopian manufacturing sector generate positive spillovers for domestic companies, primarily by fostering competition and imitation within the sectors where foreign players have established a presence. On the other hand, Javorcik (2004), analysing vertical and horizontal linkages on Lithuanian data, finds no evidence of significant horizontal spillovers.

2.4 Linkages with technological partners

In a study on manufacturing companies in Zhejiang Province in China, Mei, Zhang and Chen (2019) find a positive relationship between multinationals and other major economic players on the one hand, and innovation among small and medium-sized business enterprises in domestic markets on the other. That positive correlation is more pronounced for technology-oriented small and medium-sized enterprises. Large economic players play a critical role in that they can provide small and medium-sized enterprises with specialized knowledge related to their core business activities, thereby promoting innovation and helping those enterprises to grow and develop.

2.5 Other types of spillover

Multinational enterprise affiliates in developing countries can also generate positive spillovers in developing economies by funding the provision of capacity-building support to workers. That training is likely to be only partly firm-specific and may therefore be useful for workers who leave multinational enterprise affiliates to take up employment with other domestic companies or, alternatively, decide to establish their own business enterprises. Foreign affiliates can also provide specific training directly to local suppliers of intermediate inputs (Amendolagine and others, 2019). Moreover, multinational enterprises may collaborate with local institutions in host economies to enhance the technological skills of workers. For example, under the terms of a cooperation agreement signed by the Ministry of Industry and Trade of Viet Nam and Samsung in 2020, training was provided to 200 Vietnamese molding technicians (Thuy, 2020). Specialized knowledge relevant to production processes can also be passed from multinational enterprise affiliates to other domestic companies in an informal manner through interactions among workers employed by different companies. In Honduras, for example, a multinational enterprise affiliate in the *maquila* sector offered breakfast to workers half an hour prior to the start of company working hours to incentive punctuality and enhance productivity. Such practices also spread to other domestic companies in the same sector, as reported in Alfaro and Rodríguez-Clare, (2004). Ndemo and Smallbone (2015) note that some employees who resigned from positions at foreign affiliates in Kenya moved to other companies, while others started their own companies and established both forward and backward linkages with the foreign companies for whom they previously worked. Moreover, former employees of the General Motors local affiliate have played a prominent role in training small and middle-size local subcontractors of that multinational company to meet required quality standards.

3. Conceptual framework

3.1 Micro-, small and medium-sized enterprises and regional/global value chains

Global value chains provide opportunities for developing countries to participate in global markets by specializing in specific stages of the production process (Taglioni and Winkler, 2016; Kummritz, Taglioni and Winkler, 2017; World Bank, 2020b). Given that a limited manufacturing base prevents African countries from developing comparative advantages through the entire value chain (IMF, 2015), increased access to global value chains provides a golden opportunity for African business enterprises to take advantage of technological spillovers from global players (Amendolagine and others, 2019; Del Prete, Giovannetti and Marvasi, 2017). The development of regional value chains linking African economies, spurred by the launch of the African Continental Free Trade Area, is expected to facilitate access to cross-border trade in intermediate goods and services and promote strategic diversification across global and regional markets (Barrientos and others, 2016).

A recent report by the World Bank (2020a) highlights a number of potential positive effects of global value chain participation for developing economies. Firstly, trade in intermediate inputs and services can boost productivity, particularly for countries that are transitioning from exporting commodities to exporting basic manufactured products that use imported inputs incorporating more advanced technology than domestic inputs. (Several Asian economies, including Bangladesh, Cambodia and Viet Nam are, at present, making that transition). Secondly, it can positively affect employment by increasing the quality of jobs and moving resources towards more productive activities, which, in turn, can create more jobs. Thirdly, improvements in productivity and employment can also translate into a reduction in poverty rates. As also highlighted in the same World Bank report, however, the development of global value chains also carries certain risks. Firstly, the gains from global value chain participation are not distributed equally across and within countries. Large corporations that outsource the production of low-cost intermediate inputs to developing countries have seen rising markups and profits, suggesting that a growing share of cost reductions from global value chain participation is not being passed on to consumers. Secondly, the increased technological competition stemming from participation in global value chains tends to lead to a higher premium for skilled workers and stagnant wages for unskilled workers. Thirdly, global value chains can also have a negative impact on the environment by leading to the more intense exploitation of natural resources located in developing economies. It is therefore critical to adopt policies at both the national and international level to maximize the benefits stemming from global and regional value chain development and minimize associated risks.

Given their large economic relevance in developing countries, micro-, small and medium-sized enterprise can play a key role in transmitting the benefits and risks associated with global value chains to local economies. If large companies, whether domestically based or based abroad, can shape value chains across international markets, micro-, small and medium-sized enterprises play a key role in guaranteeing that participation in global value chains, resulting in broad-based and sustainable development (Asian Development Bank, 2015). Micro-, small and medium-sized enterprises can, however, be constrained by their limited size when trying to participate in global value chains by directly purchasing or selling goods and services in foreign markets (Mutalemwa, 2015; WTO, 2022).

In general, the growth opportunities for micro-, small and medium-sized enterprises stemming from global value chain development result from access to foreign buyers, technological learning from large

global players and the higher productivity that results from increased competition in international markets (Nichter and Goldmark, 2009; Asian Development Bank, 2015). Nevertheless, micro-, small and medium-sized enterprise can find it challenging to access or benefit from global value chains; they may, for example, be unable to achieve economies of scale, lack adequate financial resources, or managerial or language skills, have limited knowledge of market opportunities or quality certification, or be forced to absorb high transaction costs stemming from developing countries' poor transport and information and communications technology infrastructure. Some of those challenges have been highlighted in studies on the constraints impeding the growth of micro-, small and medium-sized enterprises in Africa. Obeng, Robson and Haugh (2014), for example, in an empirical investigation of small business enterprises in Ghana, find that the impact on growth rates of factors such as the age and education of entrepreneurs and company size, varies across economic sectors. Nevertheless, larger companies generally perform better across all sectors. Makanyeza and Dzvuke (2015), focusing on 200 small and medium-sized enterprises in Zimbabwe, show that innovation, particularly to develop new products and improve production techniques, is closely correlated with financial and non-financial performance. Correlation appears to be greater in the manufacturing and services sectors. Dupas and Robinson (2013) and Derbyshire and Fouché (2018) stress the relevance of financial constraints. In the former work, the authors study small informal business enterprises in rural Kenya (market vendors and taxi drivers), finding that access to formal bank accounts enhances the likelihood that those running small and medium-sized business enterprises will increase their savings and investments. The latter work concerns the growth patterns of micro- and small business enterprises in South Africa. Most of the entrepreneurs analysed relied on personal savings as initial funding to start their businesses. Access to external funding, along with increased financial literacy, were found to be highly important factors with significant potential to boost growth.

Kaplinsky and Morris (2019) find that African small and medium-sized enterprises often find it extremely challenging to access global value chains due to their inability to produce goods in sufficient quantities. There are certain competitive advantages for small and medium-sized business enterprises in global markets, however. Firstly, due to their modest size, they are often more flexible and responsive when market conditions change. Secondly, they are often better able to avoid costs associated with compliance with government regulations, such as those pertaining to health and safety. Thirdly, they do not necessarily follow established innovation trajectories and can be keener to produce new products, potentially enhancing their access to small but profitable niche markets. In that regard, Misati and others (2017) review the opportunities stemming from access to international niche markets. They find, for example, that coffee growers in East Africa, who often have limited scope for expansion in their domestic markets due to the preference for tea among people in the subregion, have been able to expand their businesses by entering international coffee markets.

Furthermore, challenges stemming from the small size of those businesses can be addressed, at least in part, if those enterprises establish or move their business operations to industrial clusters that focus on regional or subregional markets (OECD, 2021). Indeed many of the challenges faced by micro-, small and medium-sized enterprise trying to enter international markets can be mitigated when they enter subregional value chains. This is primarily due to the fact that demand characteristics tend to be more homogeneous at the regional level, while quality and certification requirements are often less onerous than those associated with global value chains. Furthermore, subregional value chains often develop naturally from existing cross-border relationships between buyers and suppliers, many of which are based on family or ethnic ties.

3.2 The importance of linking micro-, small and medium-sized enterprises with foreign multinational enterprise affiliates

Small companies in developing countries can be categorized according to their propensity to innovate and grow (Woodruff, 2018). Those companies include: (a) subsistence enterprises, namely low-growth/low-innovation enterprises that are neither interested in nor prepared for sustained growth; (b) livelihood enterprises, namely enterprises that focus on traditional products or services and are able to grow beyond subsistence level, expanding employment in the process; (c) dynamic firms, namely medium-sized enterprises operating in established industries that are keen to employ new and more skilled workers; (d) niche ventures, namely enterprises with potential for innovation and sustained growth, even if potential destination markets are small; (e) high-growth ventures, namely business enterprises that are likely to introduce innovative technologies and business models. Verhoogen (2023), reviewing research on firm-level upgrading in developing economies, describes two major channels by which business enterprise upgrading occurs. The first channel involves reaching out to consumers abroad, either directly or indirectly, through participation in international value chains. The second channel involves developing specialized company know-how by learning from consultants or other firms. Both those channels for upgrading can occur through linkages between local companies and affiliates of multinational enterprises (UNCTAD, 2004; Jenkins and others, 2007; World Bank, 2018). In more detail, vertical linkages can provide local companies with indirect access to foreign markets through international value chains. For example, local companies can supply intermediate goods to local affiliates of foreign multinational enterprises that, in turn, trade with international and potentially more developed markets. Horizontal linkages, established through direct competition in local markets or technological collaboration with foreign multinational enterprises can give local businesses the opportunity to learn innovative technologies and develop new products.

Furthermore, linkages to local affiliates of foreign multinational enterprises are an easy way for micro-, small and medium-sized enterprises to enter and maximize the benefits stemming from global value chains (Asian Development Bank, 2015; OECD-UNIDO, 2019). The establishment of the African Continental Free Trade Area has increased opportunities for African investors to invest in companies across the continent (Morgan, Farris and Johnson, 2022). In turn, African FDI is expected not only to mobilize new capital and support the transfer of advanced technologies to destination economies, but also to enhance opportunities for micro- , small and medium-sized enterprises to participate in global and regional value chains through linkages to local companies. Vertical backward linkages, established through agreements to supply intermediate goods to foreign multinational enterprise affiliates, can reduce the risks and costs associated with trading goods on international markets directly by guaranteeing stable flows of orders, sharing information regarding international market requirements, reducing the need for capital investments, and providing learning and training opportunities. Even if only indirectly, backward vertical linkages can provide local micro-, small and medium-sized enterprises with opportunities to learn about international markets, where demand for more complex products may be greater than among local buyers (Nichter and Goldmark, 2009). In turn, vertical forward linkages, established through agreements to buy intermediate goods from affiliates of foreign multinational enterprises, can provide micro-, small and medium-sized enterprises with production inputs that are more technologically advanced than inputs supplied by local companies, enabling local businesses to upgrade the quality of their exports (World Bank, 2020b; Ndubuisi and Owusu, 2021). Finally, micro-, small and medium-sized enterprises can also benefit from horizontal linkages by competing and/or cooperating with local

affiliates of foreign multinational enterprises in the same industry, particularly if they form business clusters to establish economies of scale. Overall, those linkages can boost micro-, small and medium-sized enterprises' productivity and innovation (Nichter and Goldmark, 2009), potentially strengthening their competitiveness in global markets.

Some examples from South Africa shed light on the opportunities and risks stemming from business linkages between national micro-, small and medium-sized enterprises and the affiliates of foreign multinational enterprises. Lydall (2009) describes backward linkages between national suppliers and multinational enterprises in the South African mining sector. Although local content in multinational enterprise production is, on average, more than 60 per cent, a significant proportion of capital equipment is imported, primarily from the European Union and the United States of America. If we take into account the entire product development and manufacturing process, however, local content is much lower (averaging between 5 per cent and 20 per cent). South African companies have become world leaders as suppliers of mining-specific services, including in areas such as mine design and testing, ventilation and cooling, smelting and metallurgical testing. Kirsten and Rogersen (2010) examine linkages in the South African tourist sector, revealing that significant opportunities for national micro-, small and medium-sized enterprises stem from the wider travel and tourism economy, with positive repercussions for manufacturing, construction and service sector companies related to the tourism industry. Moreover, more significant gains are likely to be realized in urban areas, thanks to the more developed infrastructure and a larger number of potential local suppliers in those areas. Nair and Chisoro (2015) and Nickanor and others (2021) focus on the supermarket sector. In the former work, the authors investigate the supermarket sector in Botswana, South Africa, Zambia and Zimbabwe, highlighting a number of challenges facing local small suppliers to foreign companies. Firstly, large supermarkets tend to have a strong preference for specialized suppliers, which are chosen on the basis of product quality and their capacity to deliver large quantities of products. Secondly, large supermarkets tend to source only indirectly from small scale farmers, while they directly source from wholesalers and processors. Moreover, large supermarket chains can crowd out small local competitors. In the second work, the authors examine South African supermarket chains in Namibia, finding that, in general, small local producers are not integrated into the value chains of supermarkets, which import most of their products from South Africa.

More generally, micro-, small and medium-sized enterprises, even when integrated into multinational enterprise value chains, often operate as lower-tier suppliers due to their small size. Indirect supplying relationships are less likely to generate knowledge transfers from multinational enterprises to local suppliers, due to the absence of direct contractual relationships. Furthermore, lower-tier suppliers are often less able than higher-tier suppliers to comply with sustainability requirements, while their products are subject to fewer inspections by multinational enterprises (Villena and Gioia, 2020).

3.3 Differences between multinational enterprises from the global North and the global South

Rodriguez-Clare (1996) shows that the intensity of backward linkages between multinational enterprises and local suppliers is shaped by the location of foreign investors through two main channels: the geographical distance between the origin and destination of FDI and the adoption or otherwise of preferential trade agreements. Indeed, business linkages are more likely to occur when the institutional distance between the foreign investor's home country and the home country of the micro-, small or medium-sized enterprise is relatively short (Pérez-Villar and Seric, 2015), as this can facilitate efforts by affiliates of multinational enterprises from economies from the global South (southern economy

multinational enterprises) to deal with and address challenges related to local formal and informal bureaucratic procedures.

A number of research papers have highlighted that the entry into African markets of southern economy multinational enterprises can have a more positive impact than the entry of multinational enterprises from the global North. In terms of employment opportunities, Coniglio, Prota and Seric (2015) find that southern economy multinational enterprises, and particularly Chinese enterprises, tend to employ more workers than their northern counterparts, although they tend to employ a larger proportion of lower-wage unskilled workers. Amendolagine, Coniglio and Seric (2017) examine the impact of multinational enterprises from the global North and from Brazil, the Russian Federation, India, China and South Africa (the so-called BRICS countries) in sub-Saharan Africa, confirming that investors from BRICS countries are keener to set up long-term contractual agreements with local suppliers and transfer knowledge to them than their northern counterparts. Coniglio, Hoxhaj and Seric (2017) show that multinational enterprises tend to employ more domestically-based workers if backward and forward linkages have been established with local businesses, and that the shorter the geographical distance between the FDI origin and destination countries, the greater the positive impact on local employment. Gold and others (2017) investigate the difference between investors from the global North and the global South, particularly in terms of productivity and employment in local business enterprises. While the authors do not find significant differences in terms of productivity, they show that southern economy multinational enterprises, and particularly those based in Africa, generate more jobs than their northern counterparts and are more likely to support technological upgrades for local partners. Seyoum, Wu and Yang (2015) find that FDI from China can have positive technological spillovers for companies based in Ethiopia. The impact of those spillovers is conditional on the absorptive capacity of domestic companies and, interestingly, tends to be particularly significant for small and non-exporting local businesses. Habyarimana and Opoku (2018), working on a dataset of 49 African countries, find that Chinese FDI can boost the efficiency of capital per worker, although it can have a negative impact on total factor productivity.

Njikam and Leudjou (2019) analysing firm-level data across manufacturing sectors in Cameroon, discover that total factor productivity of Cameroonian companies in upstream sectors is negatively affected by the presence of affiliates of American and European multinational enterprises in downstream sectors, but positively related to the presence of downstream Asian investors. Specific to extractive industries, Kaplinsky and Morris (2009) and Morris, Kaplinsky and Kaplan (2012) examine the conditions under which linkages can boost local development. The authors in both studies demonstrate that, for a number of reasons, nationality of ownership can have an impact on local development. Firstly, the structure of equity markets in origin countries can shape the time horizons and appetite for risk of foreign investors. In that respect, investors from developed economies tend to raise investment capital in financial markets. In practice, this means that investors from the global North tend to have shorter-term horizons for a return on investment and are more risk averse than investors from the global South. Chinese investors often have access to more "patient" publicly-owned capital, which extends their time horizon for a return on investment and makes them less risk averse. Secondly, pressure by civil society organizations in investors' home countries can make a difference in terms of the implementation or otherwise of corporate social responsibility measures by foreign investors, including those pertaining to labour rights and environmental protection. In general, Chinese and Indian investors are under less pressure in that regard when they invest abroad. Fessehaie (2012) and Fessehaie and Morris (2013) examine the copper mining sector in Zambia, comparing the backward linkages that local suppliers have established with traditional buyers from the United States of America, European Union countries, South Africa and other buyers (primarily from China and India). Traditional buyers tend to source from a limited number of large suppliers with a strong locational advantage, demand compliance with very high quality standards and

intensively monitor the operations of their suppliers. Furthermore, they are more likely to support their local suppliers, including through information sharing, payments in advance and long-term contracts, and therefore support their upgrading in regional and global value chains. Suppliers to Chinese and Indian buyers may have to address a series of cultural, language and other challenges. Wegenast and others (2019) investigate the impact of Chinese FDI on local employment in the mining sector in 38 sub-Saharan countries, focusing on copper, gold and diamond mining. Using survey-based georeferenced data, their analysis reveals that the probability of being unemployed is larger in the neighborhood of Chinese mining activities with respect to other countries' mining operations. Moreover, the authors also draw attention to the fact that local populations often feel that Chinese workers crowd out local employees, reducing employment opportunities for local inhabitants.

In the apparel industry, Morris, Plank and Staritz (2016) compare FDI from Asian transnational investors and African investors in sub-Saharan Africa. They find that, unlike their export-oriented Asian counterparts, regional investors often lack global investment and sourcing strategies. Destination countries for African FDI are often chosen because of geographical or cultural proximity between origin and destination countries, to reduce labour costs, or to exploit preferential market access agreements. As for linkages to local suppliers, Asian multinational enterprises tend to place high value added functions in their home countries and source lower value added "cut-make-trim" activities in sub-Saharan Africa. On the other hand, South African and Mauritian multinational enterprises tend to establish very close ties with local suppliers, which often supply higher value added goods than those supplied to Asian multinationals. Morris and Staritz (2017), focus on Lesotho, which receives significant foreign investment from Taiwan province of China and South Africa. Taiwanese multinational enterprises, which often source intermediate inputs globally in a bid to obtain intermediate inputs at the lowest possible cost, tend to provide only limited training to local suppliers, with that training focused on basic production functions. Furthermore the relationship between local suppliers and those multinationals is often unstable, due to the export-market motivation for their investments. South African multinational enterprises, on the other hand, tend to source a wider variety of inputs locally, despite the capacity constraints of many local suppliers, and endeavour to work with suppliers with relatively short lead times, which are often better able to respond in a flexible manner to changing product requirements. South African multinational enterprises often employ a mix of expatriate and local managers. They are often keen to establish long-term relationships with their suppliers and may make significant investments in staff training with a view to improving efficiency and boosting production.

4. Linkages in Southern Africa: an empirical analysis

The empirical analysis of linkages in Southern African countries discussed in the present report was conducted on the basis of data collected through two surveys, namely the micro-, small and medium-sized enterprise survey, which was addressed to local micro-, small and medium-sized enterprises, and the multinational enterprises survey, which was addressed to local affiliates of foreign multinational enterprises. The surveys were based on questionnaires previously employed to analyse linkages among business enterprises, namely (a) the UNIDO Africa Investor Survey 2010, a questionnaire that has informed several papers on linkages in sub-Saharan Africa (Amendolagine and others, 2013; Boly and others, 2014; Gold and others, 2017; Amendolagine and others, 2019; Amendolagine and Prota, 2021); and (b) the questionnaires used by Alfaro-Urena, Manelici and Vasquez (2022) to collect data on linkages between foreign multinational enterprises and local suppliers in Costa Rica.

Hard copy and online versions of the two surveys,[8] together with a list of large local foreign multinational enterprise affiliates, drawn up on the basis of information contained in the Bureau van Dijk Orbis database (Bureau van Dijk, n.d.), were sent to local entities concerned with the promotion of trade and investment, ministries in charge of micro-, small and medium-sized enterprises and chambers of commerce operating in the eleven economies that are the focus of the present report. In addition, the author contacted multinational enterprise affiliates directly by telephone and by email, using the contact details provided on those companies' websites and, in some cases, by reaching out to the local entities mentioned above.

4.1 Micro-, small and medium-sized enterprises: survey results

The micro-, small and medium-sized enterprise survey was completed and returned by 62 micro-, small and medium-sized enterprises in Botswana, Lesotho, Mauritius, Mozambique, Namibia and Zambia. Six of those enterprises are active in primary economic sectors (agriculture and fishing), 27 in manufacturing (chemicals, electrical equipment, electronics, food, paper, pharmaceuticals, textiles and wood) and 29 in services (accounting, civil engineering, computer programming, computer repairs, creative activities, education, managerial activities, security systems, waste treatment and disposal and wholesale trade).

Table 5 provides an overview of the information provided by the primary-sector micro- , small and medium-sized enterprises that completed the survey. Two thirds of those business enterprises claim to have established horizontal and/or forward linkages with local affiliates of foreign multinational enterprises. One third of those enterprises supply intermediate inputs to multinational enterprise affiliates and/or have established technological partnerships with them. Four out of six companies have established more than one type of linkage with multinational enterprises. With respect to individual countries, the only company in Mozambique that completed the survey (an agricultural sector business) has not established any linkages. One company, based in Namibia and operating in the fishing sector, has established forward linkages. In Zambia, all the four companies that completed the survey and

8 The micro-, small and medium-sized enterprise survey and the multinational enterprises survey are provided in the annex to the present report.

operate in the agriculture and fishing sectors have established horizontal linkages with multinational enterprises, in addition to at least one further type of linkage.

Table 6 provides details on linkages established by companies in manufacturing sectors. In this case, two-thirds of the micro-, small and medium-sized enterprises in the sample have established horizontal linkages, some 40 per cent have established backward linkages and 11 per cent have established technological partnerships with multinational enterprises. Approximately 52 per cent of the business enterprises have established more than one type of linkage. At the country level, one manufacturing company is based in Botswana and operates in the chemicals sector. That company reports that it has established all types of linkages with the exception of technological partnerships. Two companies operate in the food sector in Lesotho: one reports horizontal linkages and the other backward linkages. Three micro-, small and medium-sized enterprises are based in Mauritius: one business enterprise operates in the textiles sector and has established no linkages; one enterprise operates in the food sector and has established both backward linkages and technological partnerships; and one enterprise operates in the chemicals sector and has established horizontal linkages with foreign companies. Six companies are based in Mozambique: three are active in the food sector (two with horizontal linkages and one with backward linkages); one in the chemicals sector (with no linkages); one in the electrical equipment sector (with all types of linkages except horizontal); and one in the paper sector (with both horizontal and backward linkages). Four micro-, small and medium-sized enterprises are based in Namibia: two in the food sector, both with horizontal linkages to multinational enterprises, plus either backward or forward linkages; one in the wood sector, with no linkages; and one in the pharmaceuticals sector, with horizontal linkages. Ten micro-, small and medium-sized enterprises in the manufacturing subsample are based in Zambia: three operate in the chemicals sector, with horizontal linkages (two with linkages of multiple types); five in the food sector (four with horizontal linkages and two with backward linkages); one in the wood sector, with multiple types of linkages; and two in the electrical equipment and electronics sectors, both of which have established linkages of various types.

Table 7 provides details of the types of linkages established by micro-, small and medium-sized enterprises in the services sector. One company operates in Lesotho and provides managerial support services: that company reports no linkages to multinational enterprises. Fourteen companies operate in Mozambique: one in the accounting sector, with horizontal linkages; one in the wholesale trade sector, with both horizontal linkages and technological partnerships; two in the security systems sector, with both backward and forward linkages; two in the management services sector, with backward linkages, plus either a horizontal linkage or a technological partnership; one in the transport sector, with horizontal and forward linkages; one in the electricity sector, with forward linkages; one in public administration and one in civil engineering, both with horizontal linkages; three in general services, all with multiple types of linkages; and one in wholesale trade, with no linkages. Three micro-, small and medium-sized enterprises are based in Namibia: one in the water treatment sector, with horizontal linkages; one in the computer programming sector, with technological partnerships with multinational enterprises; and one in the creative sector, with no linkages. Finally, eleven services companies are based in Zambia: one operates in the accommodation sector, with forward linkages and technological partnerships; one in civil engineering, with both horizontal and forward linkages; one in computer programming, with horizontal and forward linkages, plus technological partnerships with multinational enterprises; one in computer repairs, with no linkages; three in construction, all with backward linkages and two in direct competition with multinational enterprise affiliates; one in education, with no linkages; one in the managerial support services sector, with all types of linkage; one in waste treatment and disposal, with horizontal and backward linkages; and one in the wholesale trade sector, which reports that it is in direct competition with local affiliates of foreign companies.

Of the 62 micro-, small and medium-sized enterprises in the sample, 39 (some 63 per cent) claim to have established horizontal linkages with local affiliates of multinational enterprises, with which they are often in direct market competition. Table 8 compares the typical characteristics of micro-, small and medium-sized enterprises that have established those linkages and report negative effects, namely a reduction in sales, and those reporting positive effects, namely an increase in investments and innovation. With respect to companies struggling to compete against foreign companies, those benefitting from horizontal linkages are, on average, younger, more focused on local markets (i.e. they export a lower share of sales than companies focused on markets abroad), and relatively small in terms of the number of workers they employ. A larger proportion of their full time employees are female, but a lower proportion of their employees have completed secondary education. Moreover, those companies are likely to: be located within five kilometres of a multinational enterprise affiliate; undertake both product and process innovation; possess product quality certification (but not certification issued by an international authority); and rely on external sources for initial funding. In both the primary and manufacturing sectors, the share of companies reporting positive effects is larger than the share of companies reporting a reduction in sales. This is unlike the situation of companies in the service sector, where most companies report a reduction in sales. Finally, most companies benefiting from horizontal linkages face competition from affiliates of African multinational enterprises, namely companies based in Botswana, the Congo, Kenya, South Africa, the United Republic of Tanzania and Zimbabwe, or in other emerging economies, including, in particular, China and India; in only three cases, the business enterprises that completed the survey reported that they faced competition from companies affiliated to European multinational enterprises, namely companies based in France and Portugal. In general, the companies reporting negative effects face competition from companies based outside Africa. These include companies in Australia, Canada, China, France, Germany, India, Lithuania, Portugal, the United Arab Emirates and the United States of America. For those companies, African competitors, including companies from South Africa, the United Republic of Tanzania, Zambia and Zimbabwe, were less important.

Table 5: Linkages of micro-, small and medium-sized enterprises in the sample: primary sectors

Country	Sector	No. of companies	No. of companies with horizontal linkages (percentage of total in brackets)	No. of companies with backward linkages (percentage of total in brackets)	No. of companies with forward linkages (percentage of total in brackets)	No. of companies with technological partnerships (percentage of total in brackets)	No. of companies with multiple linkage types (percentage of total in brackets)
Mozambique	Agriculture	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Namibia	Fishing	1	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)	0 (0.0)
Zambia	Agriculture	3	3 (100.0)	2 (66.7)	2 (66.7)	1 (33.3)	3 (100.0)
Zambia	Fishing	1	1 (100.0)	0 (0.0)	1 (100.0)	1 (100.0)	1 (100.0)
Total		6	4 (66.7)	2(33.3)	4 (66.7)	2 (33.3)	4 (66.7)

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Table 6: Linkages of micro-, small and medium-sized enterprises in the sample: manufacturing sectors

Country	Sector	No. of companies	No. of companies with horizontal linkages (percentage of total in brackets)	No. of companies with backward linkages (percentage of total in brackets)	No. of companies with forward linkages (percentage of total in brackets)	No. of companies with technological partnerships (percentage of total in brackets)	No. of companies with multiple linkage types (percentage of total in brackets)
Botwana	Chemicals	1	1 (100.0)	1 (100.0)	1 (100.0)	0 (0.0)	1 (100.0)
Lesotho	Food	2	1 (50.0)	1 (50.0)	0 (0.0)	0 (0.0)	0 (0.0)
Mauritius	Textiles	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Mauritius	Food	1	0 (0.0)	1 (100.0)	0 (0.0)	1 (100.0)	1 (100.0)
Mauritius	Chemicals	1	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Mozambique	Chemicals	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Mozambique	Electrical equipment	1	0 (0.0)	1 (100.0)	1 (100.0)	1 (100.0)	1 (100.0)
Mozambique	Paper	1	1 (100.0)	1 (100.0)	0 (0.0)	0 (0.0)	1 (100.0)
Mozambique	Food	3	2 (66.7)	1 (33.3)	0 (0.0)	0 (0.0)	1 (33.3)
Namibia	Food	2	2 (100.0)	1 (50.0)	1 (50.0)	0 (0.0)	2 (100.0)
Namibia	Pharmaceuticals	1	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Namibia	Wood	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Zambia	Chemicals	3	3 (100.0)	1 (33.3)	1 (33.3)	0 (0.0)	2 (66.7)
Zambia	Electrical equipment	1	1 (100.0)	1 (100.0)	1 (100.0)	0 (0.0)	1 (100.0)
Zambia	Electronics	1	0 (0.0)	1 (100.0)	1 (100.0)	1 (100.0)	1 (100.0)
Zambia	Food	5	4 (80.0)	0 (0.0)	2 (50.0)	0 (0.0)	2 (50.0)
Zambia	Wood	1	1 (100.0)	1 (100.0)	1 (100.0)	0 (0.0)	1 (100.0)
Total		27	18 (66.7)	11 (40.7)	9 (0.3)	3 (11.1)	14 (51.8)

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Table 7: inkages of micro-, small and medium-sized enterprise in the sample: service sectors

Country	Sector	No. of companies	No. of companies with horizontal linkages (percentage of total in brackets)	No. of companies with backward linkages (percentage of total in brackets)	No. of companies with forward linkages (percentage of total in brackets)	No. of companies with technological partnerships (percentage of total in brackets)	No. of companies with multiple linkage types (percentage of total in brackets)
Lesotho	Managerial support	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Mozambique	Accounting	1	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Mozambique	Wholesale trade	1	1 (100.0)	0 (0.0)	0 (0.0)	1 (100.0)	1 (100.0)
Mozambique	Security systems	2	1 (50.0)	2 (100.0)	2 (100.0)	1 (50.0)	2 (100.0)
Mozambique	Managerial support	2	1 (50.0)	2 (100.0)	0 (0.0)	1 (50.0)	1 (50.0)
Mozambique	Transport	1	1 (100.0)	0 (0.0)	1 (100.0)	0 (0.0)	1 (100.0)
Mozambique	Electricity	1	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)	0 (0.0)
Mozambique	Public administration	1	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Mozambique	Civil engeneering	1	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Mozambique	Other services	3	2 (66.7)	2 (66.7)	2 (66.7)	0 (0.0)	3 (100.0)
Mozambique	Wholesale trade	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Namibia	Water treatment	1	1 (100.0)	0 (0.0)	1 (100.0)	0 (0.0)	1 (100.0)
Namibia	Computer programming	1	0 (0.0)	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)
Namibia	Creative industries	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Zambia	Accomodation	1	0 (0.0)	0 (0.0)	1 (100.0)	1 (100.0)	1 (100.0)
Zambia	Civil engeneering	1	1 (100.0)	0 (0.0)	1 (100.0)	0 (0.0)	1 (100.0)
Zambia	Computer programming	1	1 (100.0)	0 (0.0)	1 (100.0)	1 (100.0)	1 (100.0)
Zambia	Computer repairs	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Zambia	Construction	3	2 (66.7)	3 (100.0)	1 (100.0)	0 (0.0)	2 (66.7)
Zambia	Education	1	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Zambia	Managerial support	1	1 (100.0)	1 (100.0)	1 (100.0)	1 (100.0)	1 (100.0)
Zambia	Waste treatment and disposal	1	1 (100.0)	1 (100.0)	0 (0.0)	0 (0.0)	1 (100.0)
Zambia	Wholesale trade	1	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total		29	17 (58.6)	11 (37.9)	12 (41.4)	7 (24.1)	16 (55.1)

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Table 8: Impact of horizontal linkages

	Reduction of sales	Increase in investments and innovation
Age of business enterprise in years (average)	8.4	6.7
Exports as a percentage of total sales (average)	7.1	6.9
No. of full-time employees (average)	8.5	6.9
Percentage of women in the workforce (full-time employees only, average)	40.4	43.9
Percentage of full-time employees with at least secondary education (average)	75.7	71.6
Percentage of companies with at least one multinational enterprise affiliate within five km	40.0	44.0
Percentage of companies that have updated their products in the last three years	70.0	81.3
Percentage of companies that have updated their product development processes in the last three years	60.0	68.8
Percentage of companies that have obtained product certification	40.0	56.3
Percentage of companies that have obtained international certification for their products	15.0	6.3
Percentage of companies that were started with personal funding	80.0	75.0
Proportion of primary sector companies (percentage)	5.0	18.8
Proportion of manufacturing sector companies (percentage)	40.0	50.0
Proportion of service sector companies (percentage)	55.0	31.3
Origin country of competitors	Australia, Canada, China (5), France, Germany (2), India (2), Lithuania, Malawi, Portugal (4), South Africa (11), United Republic of Tanzania (2), United Arab Emirates, United Kingdom, United States of America (2), Zambia, Zimbabwe (2)	Botswana, Congo, China (2), France, India, Lebanon, Kenya, Portugal (2), South Africa (9), United Republic of Tanzania, Zimbabwe

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Tables 9, 10 and 11 set out data on backward linkages, which concern 24 micro-, small and medium-sized enterprises in the sample (38.7 per cent of the total). Table 9 compares the characteristics of companies with and without backward linkages to multinational enterprises. With respect to companies with no backward linkages, those supplying intermediate inputs to foreign companies are, on average, older, more focused on exports, larger in size (in terms of the number of employees) with lower proportions of female and highly-educated workers, physically closer to multinational enterprise affiliates, more likely to innovate to develop new products and improve production techniques, and more likely to have obtained product quality certification (including certification by international certifying authorities). Unlike the situation in the primary and service sectors, the proportion of manufacturing micro-, small and medium-sized enterprises that have established backward linkages is larger than the proportion of those that have not established backward linkages.

Table 10 focuses on micro-, small and medium-sized enterprises that supply intermediate inputs to multinational enterprise affiliates, comparing those that are not supported by the foreign buyers with those that receive some form of support, such as the provision of instruction manuals, training, financial assistance or help in contacting more experienced local suppliers of similar products, who can play an advisory role. With respect to the companies with no support, those that are supported by foreign buyers are, on average, older, more focused on exports, larger in size (in terms of the number of employees) with lower proportions of female and highly-educated workers, physically more distant from their associated multinational enterprise affiliates, less likely to innovate to develop new products and improve production techniques, more likely to have obtained product quality certification (but not certification by international certifying authorities), and were less reliant on personal funding to start business operations. Unlike the situation in the primary and service sectors, the proportion of manufacturing and service sector micro-, small and medium-sized enterprises that receive support is larger than the proportion of those that do not.

Notably, micro-, small and medium-sized enterprises that have established direct supply relationships with multinational enterprise affiliates (that is to say, they do not supply intermediate inputs to multinational enterprises indirectly through local distributors or higher-tier suppliers) are much more likely to receive support from the multinational enterprises they work with. The micro-, small and medium-sized enterprises in the sample that receive some form of support from multinational enterprises supply intermediate inputs to companies based in other African countries (the Congo and South Africa), China, India, Portugal and the United Kingdom; on the other hand, the micro-, small and medium-sized enterprises that receive no support supply multinational enterprises from France, Germany, Ghana, India and the United Arab Emirates.

Table 11 provides data on micro-, small and medium-sized enterprises that have established backward linkages to affiliates of foreign multinational enterprises and compares them with micro-, small and medium-sized enterprises that have not established backward linkages. Companies that have established backward linkages with foreign multinational enterprise affiliates are, on average, older. They tend to benefit from those linkages in that they are able to pay higher wages. Their business operations also tend to be more environmentally sustainable and they tend to be larger in size (in terms of the number of employees). They provide intermediate inputs to a wider range of foreign buyers and are more likely to innovate to develop new products and improve production techniques. More recently-established micro- , small and medium-sized enterprises are, however, more likely than older companies to mobilize new investment capital and develop relationships with national buyers.

Unlike micro-, small and medium-sized enterprises that export a significant share of their products, those that export few, if any, of their products are unlikely to benefit from backward linkages across

all the indicators in the table. Smaller micro-, small and medium-sized enterprises are also more likely to be penalized across all indicators with the notable exception of employment. For micro-, small and medium-sized enterprises supplying intermediate inputs to multinational enterprises, a larger proportion of female workers seems to have a positive impact only in that it facilitates efforts to mobilize investment and establish business relationships with new national buyers, while having a relatively high proportion of employees with at least a secondary education has a positive impact only in terms of attracting new foreign buyers. Geographical closeness to multinational enterprise affiliates is an advantage: backward linkages have a positive impact on employment, wages, investment, the number of national and foreign buyers, and product innovation. Micro-, small and medium-sized enterprises that innovate to develop new products and improve production techniques, including those that are successful in their efforts to obtain national and international certification for their products, benefit from backward linkages across almost all the indicators considered. Moreover, companies that relied on personal savings to start their business activity are more likely to benefit from backward linkages in terms of all indicators, with the exception of environmental sustainability and the number of new national and foreign buyers. Compared with industrial-sector micro-, small and medium-sized enterprises, the primary-sector enterprises in the sample are more likely to benefit in terms of environmental sustainability and the number of national buyers, but penalized in terms of innovation to develop new products and improve production techniques. Manufacturing-sector suppliers benefit only in terms of environmental sustainability and product innovation, and are penalized across all other indicators. Service-sector suppliers benefit from backward linkages across all indicators with the exception of environmental sustainability and the number of foreign buyers. With respect to micro-, small and medium-sized enterprises supplying multinational enterprise affiliates through higher-tier suppliers or local distributors, direct suppliers improve their performance across all indicators except innovation. As for the origin of foreign buyers, suppliers to Chinese multinational enterprises tend to be penalized in terms of employment, investments, attracting national and foreign buyers, and innovation to develop new products and improve production techniques. Suppliers to South African multinational enterprises benefit in terms of employment, wages, investments, environmental sustainability, the number of national and foreign buyers, and frequently in terms of product and process innovation. Backward linkages to Indian multinational enterprises tend to improve employment, investments, environmental sustainability and the number of national buyers, but have an unclear impact on innovation. Micro-, small and medium-sized enterprises supplying multinational enterprises from the United Arab Emirates benefit in terms of employment, wages, investments, environmental sustainability, and product/development process innovation. Micro-, small and medium-sized enterprises that supply intermediate inputs to affiliates of French multinational enterprises, benefit in terms of wages, investments, the number of foreign buyers, and product and process innovation; those supplying multinationals from Germany benefit in terms of investments, the number of national and foreign buyers, and product/development process innovation; enterprises supplying multinationals from Portugal benefit in terms of employment, wages and product/development process innovation; those supplying multinational enterprises from the United Kingdom benefit in terms of employment, investments, environmental sustainability, the number of national and foreign buyers, and product and development process innovation.

Table 9: Characteristics of micro-, small and medium-sized business enterprises without and with backward linkages with local affiliates of multinational enterprises

	Without backward linkages	With backward linkages
Age of business enterprise in years (average)	7.1	9.1
Exports as a percentage of total sales (average)	5.6	11.1
No. of full-time employees (average)	8.5	10.7
Percentage of women in the workforce (full-time employees only, average)	46.3	48.3
Percentage of full-time employees with at least secondary education (average)	74.7	67.5
Percentage of companies with at least one multinational enterprise affiliate within five km	34.0	58.0
Percentage of companies that have updated their products in the last three years	55.2	70.8
Percentage of companies that have updated their product development processes in the last three years	50.0	70.8
Percentage of companies that have obtained product certification	23.7	70.8
Percentage of companies that have obtained international certification for their products	7.9	16.7
Percentage of companies that were started with personal funding	71.0	71.0
Proportion of primary sector companies (per cent)	10.5	8.3
Proportion of manufacturing sector companies (per cent)	42.1	45.8
Proportion of service sector companies (per cent)	47.3	45.8

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Table 10: Characteristics of micro-, small and medium-sized business enterprises without and with support provided by local affiliates of multinational companies

	Without support	With support
Age of business enterprise in years (average)	8.1	9.9
Exports as a percentage of total sales (average)	5.5	15.8
No. of full-time employees (average)	9.3	11.8
Percentage of women in the workforce (full-time employees only, average)	57.7	40.2
Percentage of full-time employees with at least secondary education (average)	70.3	65.1
Percentage of companies with at least one multinational enterprise affiliate within five km	73.0	46.0
Percentage of companies that have updated their products in the last three years	72.7	69.2
Percentage of companies that have updated their product development processes in the last three years	81.8	61.5
Percentage of companies that have obtained product certification	54.5	84.6
Percentage of companies that have obtained international certification for their products	27.3	7.7
Percentage of companies that were started with personal funding	81.8	61.5
Proportion of primary sector companies (per cent)	9.1	7.7
Proportion of manufacturing sector companies (per cent)	45.5	46.2
Proportion of service sector companies (per cent)	45.5	46.2
Percentage of companies that supply multinational enterprises directly	18.2	38.5
Origin country of foreign buyer	France, Germany, Ghana, India, United Arab Emirates	China, Congo, India, Portugal, South Africa (3), United Kingdom

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Table 11: Impact of backward linkages on micro-, small and medium-sized business enterprises

Factor	Employment		Wages		Investment		Environmental sustainability		No. of national buyers		No. of foreign buyers		Product innovation		Innovation in the product development process	
	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up
Age of business enterprise in years (average)	9.8	14.3	10.0	10.3	9.5	9.2	9.0	11.3	8.5	8.1	7.3	11.3	7.6	9.7	7.9	9.8
Exports as a percentage of total sales (average)	6.5	7.0	0.0	15.2	0.0	6.5	0.0	12.8	0.0	11.9	0.0	18.4	0.0	15.7	0.0	17.8
No. of full-time employees (average)	15.5	13.1	2.0	14.3	4.0	10.0	4.0	17.1	4.0	13.4	3.3	19.3	4.0	13.4	5.6	13.7
Percentage of women in the workforce (full-time employees only, average)	49.5	35.0	50.0	43.5	41.5	50.7	75.0	33.5	45.8	49.1	64.5	47.3	61.0	43.0	49.7	47.4
Percentage of full-time employees with at least secondary education (average)	81.5	56.6	100.0	61.7	83.0	65.2	100.0	48.0	91.5	64.6	66.5	78.1	80.9	61.9	71.8	64.9
Percentage of companies with at least one multinational enterprise affiliate within five km	25.0	75.0	0.0	58.0	0.0	82.0	100.0	75.0	50.0	71.0	50.0	63.0	43.0	65.0	67.0	53.0
Percentage of companies that have updated their products in the last three years	50.0	87.5	0.0	75.0	0.0	72.7	100.0	62.5	50.0	71.4	50.0	87.5	57.1	76.5	55.6	80.0
Percentage of companies that have updated their product development processes in the last three years	50.0	100.0	0.0	83.3	0.0	81.8	100.0	87.5	50.0	71.4	50.0	75.0	57.1	76.5	55.6	80.0
Percentage of companies that have obtained product certification	25.0	100.0	0.0	75.0	0.0	90.9	0.0	75.0	25.0	78.6	0.0	87.5	42.9	82.4	33.3	93.3

Factor	Employment		Wages		Investment		Environmental sustainability		No. of national buyers		No. of foreign buyers		Product innovation		Innovation in the product development process	
Percentage of companies that have obtained international certification for their products	25.0	0.0	0.0	16.7	0.0	18.2	0.0	12.5	0.0	28.6	0.0	50.0	0.0	23.5	0.0	26.7
Percentage of companies that were started with personal funding	50.0	87.5	0.0	75.0	50.0	81.8	100.0	75.0	75.0	71.4	75.0	62.5	57.1	76.5	66.7	73.3
Proportion of primary sector companies (per cent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.5	0.0	7.1	0.0	0.0	14.3	5.9	11.1	6.7
Proportion of manufacturing sector companies (per cent)	75.0	50.0	100.0	50.0	100.0	54.5	0.0	50.0	50.0	35.7	50.0	50.0	71.4	35.3	44.4	46.7
Proportion of service sector companies (per cent)	25.0	50.0	0.0	50.0	0.0	45.5	100.0	37.5	50.0	57.1	50.0	50.0	14.3	58.8	44.4	46.7
Percentage of companies that supply multinational enterprises directly	0.0	50.0	0.0	41.7	0.0	36.4	0.0	25.0	25.0	35.7	25.0	37.5	0.0	41.2	11.1	40.0
Percentage of companies receiving support from buyers	25.0	75.0	0.0	50.0	50.0	54.5	0.0	50.0	50.0	42.9	25.0	37.5	71.4	47.1	55.6	53.3
Country of origin of foreign buyer	China	India, Portugal, South Africa (2), United Arab Emirates, United Kingdom	n/a	China, France, Portugal, South Africa (2), United Arab Emirates	China	France, Germany, Ghana, India, South Africa (3), United Arab Emirates, United Kingdom	n/a.	China, India, South Africa, United Arab Emirates, United Kingdom	China	Germany, Ghana, India, France, South Africa (2), United Kingdom	China	France, Germany, Ghana, South Africa, United Kingdom	China, Congo, India, South Africa	France, Germany, Ghana, India, Portugal, South Africa (3), United Arab Emirates, United Kingdom	China, Congo, India, South Africa (3)	France, Germany, Ghana, India, Portugal, South Africa (3), United Arab Emirates, United Kingdom

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

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Tables 12 and 13 set out data on forward linkages, which involve micro-, small and medium-sized enterprises buying intermediate inputs from local multinational enterprise affiliates. Table 12 compares the characteristics of non-buyers and buyers. On average, with respect to micro-, small and medium-sized enterprises with no forward linkages, those with forward linkages are younger, export a lower proportion of their products, are larger in size (in terms of the number of employees), employ lower proportions of female and highly-skilled workers, are geographically more distant from multinational enterprise affiliates, are more likely to innovate to develop new products and improve production techniques, are more likely to have obtained product quality certification (including from international certifying authorities), and were more reliant on personal savings to cover initial business start-up costs. Unlike the situation in manufacturing sectors, the proportion of primary and service sector micro-, small and medium-sized enterprises that have established forward linkages is larger than the proportion of enterprises that have not established forward linkages.

Table 13 contrasts local micro-, small and medium-sized enterprises that do not receive support from multinational enterprise buyers with those that do receive support. On average, those receiving support are slightly older, export a lower proportion of their products, are smaller in size, employ lower proportions of female and highly-educated workers, are geographically closer to multinational enterprise affiliates, are less likely to innovate, and are more likely to have obtained product quality certification from national certifying authorities (but not from international authorities). Unlike the situation in other sectors, the proportion of service sector micro-, small and medium-sized enterprises with forward linkages that receive support is larger than the proportion of those with forward linkages that do not receive support. There is no clear pattern in terms of the geographical location of multinational enterprise suppliers that provide support: multinational enterprises from China, India and South Africa are among both those that support and those that do not support local buyers. All multinational enterprises from Denmark and Israel provide support to their local suppliers, however.

Table 12: Characteristics of micro-, small and medium-sized business enterprises that have and have not established forward linkages

	Without forward linkages	With forward linkages
Age of business enterprise in years (average)	8.1	7.5
Exports as a percentage of total sales (average)	8.8	6.1
No. of full-time employees (average)	9.0	9.8
Percentage of women in the workforce (full-time employees only, average)	50.6	41.8
Percentage of full-time employees with at least secondary education (average)	74.8	67.3
Percentage of companies with at least one multinational enterprise affiliate within five km	46.0	40.0
Percentage of companies that have updated their products in the last three years	56.8	68.0
Percentage of companies that have updated their product development processes in the last three years	56.8	60.0
Percentage of companies that have obtained product certification	29.7	60.0
Percentage of companies that have obtained international certification for their products	8.1	16.0
Percentage of companies that were started with personal funding	67.6	76.0
Proportion of primary sector companies (per cent)	5.4	16.0
Proportion of manufacturing sector companies (per cent)	48.6	36.0
Proportion of service sector companies (per cent)	45.9	48.0

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Table 13: Characteristics of micro-, small and medium-sized business enterprises that receive and do not receive support from the multinational enterprises from which they receive intermediate inputs

	Without support	With support
Age of business enterprise in years (average)	7.4	7.6
Exports as a percentage of total sales (average)	6.6	5.6
No. of full-time employees (average)	10.3	9.3
Percentage of women in the workforce (full-time employees only, average)	49.3	34.3
Percentage of full-time employees with at least secondary education (average)	73.4	61.2
Percentage of companies with at least one multinational enterprise affiliate within five km	38.0	42.0
Percentage of companies that have updated their products in the last three years	69.2	66.7
Percentage of companies that have updated their product development processes in the last three years	76.9	41.7
Percentage of companies that have obtained product certification	53.8	66.7
Percentage of companies that have obtained international certification for their products	23.1	8.3
Percentage of companies that were started with personal funding	76.9	75.0
Proportion of primary sector companies (per cent)	23.1	8.3
Proportion of manufacturing sector companies (per cent)	46.2	25.0
Proportion of service sector companies (per cent)	30.8	66.7
Origin country of the foreign supplier	Brazil, China (2), Germany, India, Japan, South Africa (3), Spain, United Republic of Tanzania, United States of America	China (4), Denmark, India, Israel, South Africa (3)

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Tables 14 and 15 provide an analysis of data on technological partnerships between multinational enterprise affiliates and local micro-, small and medium-sized enterprises. Table 18 compares the characteristics of micro-, small and medium-sized enterprises that have and have not established technological partnerships. On average, with respect to micro-, small and medium-sized enterprises that have not established such partnerships, those with technological partnerships with multinational enterprises are slightly younger, export a lower proportion of their products, employ lower proportions of female and highly-skilled workers, are geographically closer to multinational enterprise affiliates, are more likely to innovate to develop new products and improve production techniques, are more likely to have obtained product quality certification (including from international certifying authorities), and were more reliant on personal savings to cover initial business start-up costs. Unlike the situation in manufacturing sectors, the proportion of primary and service sector micro-, small and medium-sized enterprises that have established technological partnerships with multinational enterprises is larger than the proportion of those that have not done so.

Table 15 provides data on the types of technological partnerships involving micro-, small and medium-sized enterprises across four economies in Southern Africa.[9] In Mauritius, the only company that has established such a partnership has forged a strategic alliance with a multinational enterprise affiliate. In Mozambique, two companies have established strategic alliances: one company has launched a

9 No micro-, small and medium-sized enterprises from Botswana and Lesotho in the sample claimed to have established technological partnerships with local affiliates of multinational business enterprises.

joint venture and one company has concluded a licensing agreement. In Namibia, the only company reporting a technological partnership has established a joint venture with a foreign company. In Zambia, all types of technological partnership have been established with local companies.

Table 14: Characteristics of micro-, small and medium-sized business enterprises that have and have not established technological partnerships with multinational enterprise affiliates

	Without a technological partnership	With a technological partnership
Age of business enterprise in years (average)	7.9	7.8
Exports as a percentage of total sales (average)	8.9	3.0
No. of full-time employees (average)	9.3	9.3
Percentage of women in the workforce (full-time employees only, average)	48.3	42.3
Percentage of full-time employees with at least secondary education (average)	77.8	48.1
Percentage of companies with at least one multinational enterprise affiliate within five km	38.0	67.0
Percentage of companies that have updated their products in the last three years	58.0	75.0
Percentage of companies that have updated their product development processes in the last three years	52.0	83.3
Percentage of companies that have obtained product certification	34.0	75.0
Percentage of companies that have obtained international certification for their products	8.0	25.0
Percentage of companies that were started with personal funding	70.0	75.0
Proportion of primary sector companies (per cent)	8.0	16.7
Proportion of manufacturing sector companies (per cent)	48.0	25.0
Proportion of service sector companies (per cent)	44.0	58.3

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Table 15: Types of technological partnership with multinational enterprises, selected economies in Southern Africa (No. of companies (percentage of total))

	Mauritius	Mozambique	Namibia	Zambia	Total
Joint ventures	0 (0.0)	1 (25.0)	1 (100.0)	1 (16.7)	3 (25.0)
Licensing agreements	0 (0.0)	1 (25.0)	0 (0.0)	1 (16.7)	2 (16.7)
Sales and installation agreements	0 (0.0)	0 (0.0)	0 (0.0)	1 (16.7)	1 (8.3)
Strategic alliances	1 (100.0)	2 (50.0)	0 (0.0)	2 (33.3)	5 (41.7)
Production of feed	0 (0.0)	0 (0.0)	0 (0.0)	1 (16.7)	1 (8.3)
Total	1 (100.0)	4 (100.0)	1 (100.0)	6 (100.0)	12 (100.0)

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

Table 16 provides data on the transfer of workers employed at local multinational enterprise affiliates to domestic micro-, small and medium-sized enterprises. The micro-, small and medium-sized enterprises in the sample that received workers from multinational enterprises are based in Mozambique (one company receiving only management staff and three companies receiving both production workers and management staff), Namibia (one company receiving only production workers) and Zambia (three companies receiving only management staff and three companies receiving both production workers and management staff). Finally, Table 17 summarizes the findings reported in tables 8 to 14.

Table 16: Transfer of staff from multinational enterprise affiliates to domestic micro-, small and medium-sized enterprises, selected economies in Southern Africa (No. of companies (percentage of total))

	Mozambique	Namibia	Zambia	Total
Only production workers	0 (0.0)	1 (100.0)	0 (0.0)	1 (9.0)
Only management staff	1 (25.0)	0 (0.0)	3 (50.0)	4 (36.0)
Both production workers and management staff	3 (75.0)	0 (0.0)	3 (50.0)	6 (55.0)
Total	4 (100.0)	1 (100.0)	6 (100.0)	11 (100.0)

Source: *Author's elaboration on the basis of micro-, small and medium-sized enterprise survey data.*

4.2 Multinational enterprises: survey results

A list of foreign multinational enterprise subsidiaries operating in the countries covered by the Subregional Office for Southern Africa of ECA, namely Angola, Botswana, Eswatini, Lesotho, Malawi, Mozambique, Mauritius, Namibia, South Africa, Zambia and Zimbabwe, was drawn up on the basis of data contained in the Bureau Van Dijk Orbis database (Bureau van Dijk, n.d.). Firstly, all companies in those countries that are at least 10 per cent foreign-owned (in line with the OECD definition of FDI),[10] were extracted from the database. For each country, the largest subsidiaries of southern economy multinational enterprises operating in manufacturing were selected.[11] Finally, each southern economy multinational enterprise subsidiary was matched with a similar subsidiary of a northern economy multinational enterprise operating in the same country and sector. This resulted in a list of 16 subsidiaries, 8 of which were controlled by investors in the global South and 8 by investors in the global North. The aim of that exercise was to facilitate a comparison of southern economy and northern economy multinational enterprises operating in similar sectors in each country in Southern Africa. Moreover, given the heterogeneity of sectors selected across the countries, it was hoped that the exercise would facilitate a comparison across different manufacturing sectors. Regrettably, however, none of the companies selected completed the multinational enterprise survey or agreed to a phone interview.[12]

Representatives of the five multinational enterprise affiliates that did reply to the multinational enterprises survey were interviewed by an ECA team during a field mission to Namibia that took place from 13 to 17 March 2023. Two of those affiliates are subsidiaries of supermarket chains, one manufactures furniture, one produces paper and plastic packaging, and one operates in the fishing sector. The foreign owners of the first four affiliates are based in South Africa and the owners of the last affiliate are based in Japan.

The first affiliate is a subsidiary of the largest South African retailer by market capitalization, sales, profit margin, number of employees and customers, which operates in nine African countries and focuses on food retail. The company, which launched its operations in Namibia in 1990, operates 72 retail stores and employs approximately 4,000 employees in the country. According to the senior manager, important factors that attracted the foreign owner of the subsidiary to Namibia included the size of the local market, the education level of the labour force, benefits stemming from international trade agreements, the availability of local suppliers that could provide high-quality inputs at acceptable prices and the availability of natural resources. The subsidiary does not export goods, while imports (from China, European Union member States and South Africa), account for approximately15 per cent of total sales. The subsidiary works with more than one hundred local suppliers, of which four are micro-enterprises,

10 The OECD definition of FDI can be found at: www.oecd.org/daf/inv/investment-policy/2487495.pdf.

11 The initial focus on multinational enterprises in manufacturing was due to the high probability that linkages with those enterprises would support local development (see Alfaro-Urena, Manelici and Vasquez, 2022).

12 The list was then extended to include approximately ten more, slightly smaller, multinational enterprise affiliates, which also declined the author's request for an interview.

Table 17: Overview: characteristics of different linkage types, micro-, small and medium-sized enterprises and multinational enterprises in Southern Africa

	Backward linkages			Forward linkages		Horizontal linkages	Technological partnerships
	Opportunities for linkages	Support from multinational enterprises	Benefits of linkages	Opportunities for linkages	Support from multinational enterprises	Investments and innovation	Opportunities for partnerships
Micro-, small and medium-sized enterprises							
Older	x	x	Employment, wages, innovation		x		
Younger			Investment	x		x	x
Larger	x	x	Wages, investment, innovation	x			
Exporter	x	x	Employment, wages investment, innovation				
Innovative	x		Employment, wages, investment, innovation	x		x	x
Product certification	x	x	Employment, wages, investment, innovation	x	x	x	x
Increased external funding		x				x	
Higher number of female employees			Investment			x	
Located close to a multinational enterprise affiliate	x		Employment, wages, investment, innovation.		x	x	x
Manufacturing sector	x	x	Innovation			x	
Services sector			Employment, wages, investment, innovation	x	x		x
Direct supplier to multinational enterprises		x	Employment, wages, investment, innovation				
Multinational enterprises							
Based in Africa		x	Employment, wages, investment, innovation			x	
Based in China or India		x	Wages (China); employment, investment (India)				
Based in the European Union or the United States of America			Investment, innovation				

twenty are small business enterprises and the other twenty are medium-size enterprises. Micro-, small and medium-sized enterprises supply some 85 per cent of inputs purchased by the company, while some 90 per cent of those enterprises are long-term suppliers, with contracts of more than ten years duration. The selection of micro-, small and medium-sized suppliers is made jointly by the South African head office and the Namibian subsidiary, which relies on its local agents and advice from other suppliers to identify suitable enterprises. Very important factors that are considered in the selection process include: the physical distance between the supplier and the company; fiscal saving opportunities; the price of goods or services provided; and the willingness of the supplier to adapt to changing circumstances and supply the exact product or service needed by the subsidiary. Other important factors include: the experience of the supplier in working with companies based outside the country; experience in exporting goods, management of the supplier and the foreign owner being from the same country, environmental sustainability, relevant provisions in international agreements, including the SADC Free Trade Agreement; the quality of goods or services supplied; the reliability and oversight of inputs provided; product certification; the willingness and capacity to make large investments to supply the subsidiary; company reputation; and access to strategic transport infrastructure. The subsidiary supports micro-, small and medium-sized enterprises in a number of ways: it provides instruction manuals or documentation pertaining to the desired product or service; its staff carry out visits to suppliers and offer advice, it invites staff at suppliers to visit the subsidiary to observe the production process relevant to the inputs to be supplied; it offers standardized training programmes for employees of local suppliers, and it facilitates knowledge sharing among suppliers that produce similar products or services with a view to disseminating best practices. It is envisaged that the support provided will lead to an increase in the quantity of products supplied and a gradual fall in prices. Suppliers that boost efficiency and improve product quality are sometimes rewarded with an exclusive contract for the provision of inputs. Contracts offered by multinational business enterprises to micro-, small and medium-sized suppliers may be terminated if the supplier is no longer able to provide goods at competitive prices or if the goods or services produced no longer comply with established quality standards. With regard to horizontal linkages, the subsidiary reports that it is in direct competition with approximately ten small local micro-, small and medium-sized enterprises, and is therefore under pressure to introduce new products. The subsidiary has also established technological partnerships with a number of local micro-, small and medium-sized enterprises for the provision of communication, transport, delivery, maintenance, cleaning and other services. Finally, it should be noted that some managers and administrative staff have left the subsidiary to take up employment with local micro-, small and medium-sized enterprises.

The second affiliate interviewed is the subsidiary of another major African retail company. Headquartered in South Africa, that retail company has subsidiaries in eight African countries. The subsidiary in Windhoek was established through the acquisition of a local company in 2021 and focuses, primarily, on purchasing potatoes, apples and bananas. Important factors that led to the decision by the foreign owner of the subsidiary to invest in Namibia included the size of the local market and the availability of local suppliers that could provide high-quality inputs at reasonable cost. Other relevant factors included the relatively short distance between Windhoek and the headquarters of the multinational enterprise, the education level of the labour force, the lower wages of workers in Namibia compared with workers in South Africa, and the availability of natural resources. The subsidiary does not export its products, and the cost of its imports is equivalent to approximately fifty per cent of its total sales. The subsidiary would like to increase its imports further, but is constrained by minimum local content constraints imposed by the Namibian Government. All imports come from South Africa. The subsidiary works with some thirty local suppliers, half of which are micro-, small or medium-sized enterprises (most are classified as small). None of the suppliers have long-term contracts with the subsidiary. Suppliers are selected by the subsidiary itself, although clearance to collaborate with a new supplier is required

from company headquarters in South Africa. In general, potential suppliers present themselves at the premises of the subsidiary and it is therefore unnecessary to use local agents or other means to identify suitable candidates. Suppliers are selected on the basis of several key considerations, including: their experience as suppliers to other foreign-owned companies; environmental sustainability; the price and quality of goods and services provided; their willingness and capacity to adapt and supply the exact product required; reliability, the management and traceability of inventories; their capacity to supply consistently high-quality products; and their access to strategic transport infrastructure. Other important factors include the physical distance between the supplier and the subsidiary and the willingness and capacity of the supplier to make large investments in order to supply required inputs. The subsidiary provides some support to micro-, small and medium-sized enterprises: subsidiary staff visit and advise suppliers and the company has developed a series of standardized training programmes for employees of local suppliers. It is envisaged that the support provided will lead to an improvement in the quality of products supplied and a gradual decrease in prices; the subsidiary also signs exclusivity contracts with suppliers. Contracts offered to micro-, small and medium-sized suppliers may be terminated if the supplier is no longer able to provide goods at competitive prices or if the goods or services produced no longer comply with established quality standards. Other reasons for termination may include the low quality of plant equipment used in production or limited productive capacity. The subsidiary sells all its products to large local distributors and does not directly compete with micro-, small and medium-sized enterprises in local markets. Neither forward linkages nor technological partnerships with local micro-, small and medium-sized enterprises are reported. One former manager at the subsidiary has, however, taken up employment at a local business enterprise. Interestingly, the senior manager at the subsidiary complained that local smallholder farmers prefer to sell their produce to local distributors that export goods to South Africa, reducing the availability of fresh produce in local markets. To address local demand, produce must then be imported from South Africa for processing or in the form of processed food. The senior manager suggested that limiting agricultural exports to South Africa could help to alleviate the challenges faced by local consumers.

The third affiliate interviewed[13] is a Windhoek–based subsidiary of a major manufacturer and distributor of office furniture in Africa. That multinational enterprise, whose headquarters are located in South Africa, started its activity in Namibia in 1991. The decision to invest in Namibia was driven by the size of the local market, the level of education of the labour force, the relatively low wages of the types of employees needed, the presence of a local partner, the availability of local suppliers and the availability of natural resources. Less than ten per cent of company sales are exported, with exports going, primarily, to Angola and Botswana. Approximately 80 per cent of sales are imported goods from South Africa, while the remaining 20 per cent are manufactured locally. The company has approximately 30 local suppliers, 5 of which are micro-business enterprises, 15 are small business enterprises and 5 are medium-sized enterprises. Some three quarters of those enterprises are long-term suppliers of the company. Micro-, small and medium sized enterprises are identified by a company agent and selected jointly by company headquarters and the local subsidiary. Critical factors driving the choice of local partner include: the prices of goods and services provided; reliability; the management and traceability of inventories; and the reputation of the supplier. Other very important factors include: environmental sustainability; the available stock of capital the quality of goods and services supplied; established product quality standards, and linkages to other large suppliers. The subsidiary supports micro-, small and medium-sized enterprises in a number of ways: it provides instruction manuals pertaining to the desired product or service; its staff carry out visits to suppliers and offer advice, it invites staff at suppliers to visit the subsidiary to observe the production process relevant to the inputs to be supplied; and it purchases machinery used in the production of the desired inputs. It is envisaged that the support provided will lead to an

13 The interview was conducted with the chairman of the company.

improvement in the quality of products supplied, a gradual fall in prices, and more stable relationships between the subsidiary and its suppliers. The subsidiary has also established forward linkages to some 60 local micro-, small and medium-sized enterprises, including retailers, distributors and manufacturers, to which it sells intermediate inputs, such as kitchen parts. As is the case with local suppliers, local buyers are found by an agent of the subsidiary and selected jointly by company headquarters and the local subsidiary itself. Some 70 per cent of local buyers are small business enterprises, while 20 per cent are medium-sized enterprises. Approximately 20 per cent of the contracts with local buyers are long-term agreements.

Critical factors taken into consideration in the selection of local buyers include company reliability, the management and traceability of inventories and established product quality standards. Other important factors include the opportunity to use such buyers as intermediates to enter markets and their experience with other foreign companies. Buyers are supported through the provision of manuals, training and knowledge transfer; in turn, the company expects the micro-, small and medium-sized enterprises it supports to purchase significant quantities of goods from the subsidiary. The subsidiary is also in direct competition with several micro-, small and medium-sized enterprises active in the local market: two are micro-business enterprises (one-man companies), three are small enterprises and one is a medium-sized business. Due to competition with the multinational enterprise affiliate, local micro-, small and medium-sized enterprise competitors strive to introduce new products and improve their production processes. The subsidiary has, moreover, established technological partnerships with local micro-, small and medium-sized enterprises in the form of strategic alliances. Finally, four former workers of the subsidiary have taken up employment with local micro-, small and medium-sized enterprises: these include three production workers and one manager.

The fourth affiliate interviewed was reached at its office in Walvis Bay, Namibia during the field mission. At the time of the meeting, the chairman of the affiliate was unavailable for a face-to-face interview. Thus, an online interview was arranged for the following week. The multinational enterprise is a leading manufacturer of paper and plastic packaging and recycler of recovered paper and plastic waste. It operates in three different African countries, namely Mozambique, Namibia and South Africa, where the company headquarters are located. The company's initial decision to invest in Namibia in 1990 was based on a number of crucial factors, including: the relatively short distance between headquarters and the proposed location of the local affiliate; limited direct competition in local markets, with the exception, more recently, of competition from Chinese companies; the relatively high level of education of the labour force, particularly as educated workers are needed to ensure high product quality; and the availability of suppliers able to provide high-quality inputs at reasonable cost. Another important factor was the relatively low wages of workers in Namibia. Due to the limited availability in Namibia of the natural resources needed by the company, those resources are imported from other countries. The affiliate exports a significant proportion of its products to other African countries, including, primarily, Angola and Zambia. Imports, which amount to some 80 per cent of total sales, all originate in South Africa. The affiliate works with hundreds of local micro-, small and medium-sized enterprises, from which it sources some 50 per cent of inputs. The selection of suppliers is made primarily by headquarters, with input provided by the local affiliate.

In general, potential suppliers present themselves at the premises of the subsidiary. Other suppliers are identified on the basis of advice from other local suppliers. Suppliers are selected on the basis of several key considerations, including: the physical distance between potential suppliers and the subsidiary; their experience as suppliers to other foreign-owned companies; fiscal incentives, relevant provisions in international agreements, including the SADC Free Trade Agreement; the price and quality of goods and services supplied; their willingness and capacity to adapt and supply the exact

product or service required by the company; reliability; the management and traceability of inputs supplied; inventories; their capacity to supply consistently high-quality products that comply with quality standards, including Standard 900 of the International Organization for Standardization (ISO), the size of suppliers; and their access to strategic transport infrastructure. The affiliate does not provide support to local micro-, small and medium-sized enterprises and reduces or stops sourcing inputs from them if their products or services are found to be unsatisfactory. The affiliate works with some 25 local buyers, 10 of which are micro-enterprises. Between 10 per cent and 25 per cent of the sales of the company are distributed by very small local buyers in local markets. The selection of local distributors is made on the basis of the following considerations: their potential as intermediates that can facilitate sales to consumers; the physical distance between the affiliate and potential distributors; previous experience of potential distributors with foreign-owned companies; environmental sustainability; linkages of potential distributors to larger buyers; their business reputation; and their access to strategic transport infrastructure. Other important considerations include: fiscal incentives, relevant provisions in international trade agreements; and the size of the potential distributor. Local buyers are supported by the multinational enterprise affiliate, which advises them on the quantities of goods to purchase. It is envisaged that the support provided will strengthen the long-term sustainability of the affiliate's business operations. The affiliate has also established horizontal linkages with local micro-, small and medium-sized enterprises and is in direct competition with three local micro-business enterprises. The affiliate has not established any technological partnerships with local micro-, small and medium-sized enterprises. No transfers of workers to those enterprises are reported.

The last affiliate interviewed during the field mission to Namibia is a Japanese-owned multinational enterprise and operates in the fishing sector.[14] The company, based in Walvis Bay, started its operations in 1989 and focuses on frozen seafood. The only critical location choice factor for the foreign investor was access to natural resources. More than three quarters of the sales of the company are exported,[15] while imports are mainly of machinery to support business operations, such as boat engines. The company has established long-term relationships with eight small local suppliers. Decisions related to the procurement of inputs are usually made by the subsidiary. Potential new suppliers are recommended by company agents, local government representatives and other local suppliers; very important factors that are considered in the selection process include: experience of supplying foreign-owned companies, reliability, the management and traceability of inventories, product certification, potential productive capacity, and company reputation. The affiliate provides support to local suppliers in two ways: its staff visit suppliers and advises them on business operations; and it facilitates knowledge sharing among suppliers that sell similar products with a view to disseminating best practices. Support is expected to be reciprocated by higher quality products supplied and exclusivity contracts. The company has reduced or ended its sourcing of produce from some suppliers because of non-competitive prices and technical issues related to the transport of fish. The company has established forward linkages with six small local buyers, with which it has concluded long-term contracts. It also reports that it has established horizontal linkages with domestic competitors and is in direct competition with five small local companies, which benefit from being in competition with a foreign-owned company thought the transfer of technology, the sharing of best practices, and the introduction of new products and production processes. No technological partnerships with local micro-, small and medium-sized enterprises are reported.

During the field mission to Namibia, contact was made with other affiliates of foreign multinational enterprises, all of which had already been contacted by telephone or by email, with a view to arranging interviews to discuss their linkages with local micro-, small and medium-sized enterprises. Unfortunately,

14 The interview was conducted with an agent of the company.

15 The destination of exports was not disclosed.

however, none of those affiliates were able to find time for an interview. The companies approached in Windhoek included the affiliate of an important United States-based multinational enterprise in the beverage sector, the affiliate of a British mining multinational enterprise specializing in diamonds, the affiliate of a South African multinational enterprise operating in the food sector and the affiliate of a German multinational enterprise that manufactures cement. A representative of the German multinational later contacted the author of the present study by phone and explained that the only linkages established by the multinational with local micro-, small and medium-sized enterprises were backward low-value linkages, such as linkages with local cleaning service companies. The author also approached two affiliates of multinational enterprises located in Walvis Bay, namely the affiliate of an important South African multinational enterprise active in the service sector, and the affiliate of a Spanish group of companies operating in the fishing sector, and three affiliates in Swakopmund, namely the subsidiary of an Australian multinational enterprise and the subsidiaries of two Chinese multinational enterprises, all three operating in the mining sector. An overview of the key information provided in the interviews conducted with the subsidiaries of multinational enterprises in Namibia is provided in table 18.

Table 18: Multinational enterprise subsidiaries in Namibia: summary of key findings

	Multinational enterprise 1	Multinational enterprise 2	Multinational enterprise 3	Multinational enterprise 4	Multinational enterprise 5
Sector	Retail (food)	Retail (food)	Manufacturing (office furniture)	Manufacturing (packaging)	Fishing
Location	Windhoek	Windhoek	Windhoek	Walvis Bay	Walvis Bay
Establishment year	1990	2020	2004	1990	1989
Entry mode	Greenfield	Acquisition	Acquisition	Greenfield	Greenfield
Foreign ownership	South Africa	South Africa	South Africa	South Africa	Japan
Export destinations	No exports	No exports	Angola and Botswana	Angola and Zambia	Not disclosed
Import origin	South Africa, China, European Union	South Africa	South Africa	South Africa	Not disclosed
Horizontal linkages (No. of micro-, small and medium-sized buyers)	10 micro-, small and medium-sized enterprises	None	6 micro-, small and medium-sized enterprises	3 micro-, small and medium-sized enterprises	5 micro-, small and medium-sized enterprises
Horizontal linkages (effects)	New products	None	New products/ production processes	None	Transfer of knowledge; new products/ production processes
Backward linkages (No. of micro-, small and medium-sized suppliers)	44 micro-, small and medium-sized enterprises	15 micro-, small and medium-sized enterprises	5 micro-, small and medium-sized enterprises	Hundreds of micro-, small and medium-sized enterprises	8 micro-, small and medium-sized enterprises
Backward linkages (choice factors)	Distance; fiscal incentives price; willingness of suppliers to adapt	Experience; environmental sustainability; price/ quality; willingness to adapt; certification; inventories; closeness to transport infrastructure	Price; inventories; reputation	Distance; experience; fiscal incentives; price/ quality; willingness to adapt; inventories; certification; size; closeness to transport infrastructure	Experience; inventories; certification; size; reputation
Backward linkages (support channels)	Instruction manuals; training programmes; visits to suppliers	training programmes; visits to suppliers	Instruction manuals; visits to suppliers; supply of machinery	None	Visits to suppliers
Backward linkages (challenges)	Price/quality of inputs sourced	Price/quality of inputs sourced; equipment of suppliers	None	Quality of inputs sourced	Price of inputs sourced
Forward linkages (choice factors)	None	None	60 micro-, small and medium-sized enterprises	10 micro-, small and medium-sized enterprises	6 micro-, small and medium-sized enterprises
Forward linkages (support)	None	None	instruction manuals; training	None	None
Technological partnerships	Strategic alliances	None	Strategic alliances	None	None

4.3 Views of institutional stakeholders

During the field mission to Namibia, the ECA team of consultants was able to take note of the views of a number of institutional stakeholders, all of which are located in Windhoek. One was the Bokamoso Entrepreneurial Center, the only small and medium-sized business enterprise incubator in Namibia. That organization provides resources and services to micro-, small and medium-sized enterprises with the aim of enhancing their entrepreneurial skills and boosting their competitiveness in open markets. The first interview was conducted at the organization's main office with the organization's economic development officer. The organization is managed by a board of trustees, comprising independent stakeholders and representatives of universities, banks and private companies, and has no sectoral focus: it is currently providing assistance to 43 small companies across different sectors that have no alternative options in terms of mobilizing support for their businesses development. Moreover, the organization has no focus on building relationships with stakeholders abroad and no representatives of foreign companies are on the board of trustees. Apart from the economic development officer, the ECA team also interviewed the director of a microenterprise with five employees (including the director) that provides medical equipment and training. That entrepreneur revealed that the subsidiary of a South African multinational enterprise operates in Windhoek in the same sector and provides similar products and services as his company. However, that subsidiary has no interactions with his company or other local micro-, small and medium-sized enterprises and imports all intermediate inputs from South Africa. Furthermore, in an interview with the director of the Bakamoso Entrepreneurial Center, the consultants discussed the main weaknesses of Namibian micro-, small and medium-sized enterprises, which continue to impede the establishment of business linkages with large companies based outside the country. One of the main issues reported was informality: indeed, a high proportion of micro-, small and medium-sized enterprises in Namibia operate in the informal economy, preventing many of them from accessing funding from external sources, with the possible exception of microcredit loans. Furthermore, there is little innovation among local micro-, small and medium-sized enterprises; this is due to weaknesses in the public education system and limited vocational training. In the light of that ongoing challenge, the director of the Bakamoso Entrepreneurial Center suggested that multinational enterprises should increase their support for vocational training as a way of addressing skills gaps.

The second stakeholder contacted during the mission was the Namibia Investment Promotion and Development Board, which strives to "create a simple and transparent business environment, built on the foundation of peace, stability and rule of law."[16] The perspective of the Board on linkages is particularly relevant to this study: on the one hand, the Board supports the design of policies aimed at boosting investments, including from abroad; on the other hand, it provides support for the development and innovation of micro-, small and medium-sized enterprises. In the interview, the manager of the micro-, small and medium-sized enterprise ecosystem optimization unit explained that the Board was building a database of informal micro-, small and medium-sized enterprises as a first and necessary step towards their formalization. The manager also emphasized that the key challenges faced by Namibian micro- , small and medium-sized enterprises included limited access to essential infrastructure, including electricity, telephone lines and Internet connections, and a lack of specialized equipment and employees able to use it. Specific institutional support is therefore required. A senior consultant working at the operations department of the Board, who was also present during the interview, said that business linkages had had limited impact in Namibia: the only positive experience of linkages in the consultant's opinion had been in the cosmetics sector, where several European multinational enterprise subsidiaries had established linkages with local suppliers, although scale disparities meant

16 Further information about the Board is available at: nipdb.com/about-us2/.

that interactions were often difficult. There was now strong policy support for strengthening linkages in three priority sectors, namely energy, agriculture and tourism, with the aim of increasing FDI-driven employment in those sectors. For historical reasons, South African multinational enterprises are key stakeholders in subregional efforts to design policies to increase linkages, and are often involved in discussions on linkage development strategies. Local bargaining power is particularly strong in the oil and gas sector, which is expected to play a key economic role for at least the next 15 to 20 years. Given the country's limited local manufacturing capacity, linkages involving Namibian business enterprises are likely to be more successful with local service providers, including retailers and goods distributors. Three promising steps that should be taken to support the development of linkages with Namibian business enterprises are: establishing minimum local content policies (i.e. imposing a minimum share of intermediate inputs that must be sourced locally); setting tax incentives to encourage purchases of locally-produced intermediate inputs; and facilitating the development of local manufacturing capacity.

The third stakeholder interviewed was the Ministry of Higher Education, Training and Innovation, which held a round table meeting with the ECA consultants. That round table was also attended by representatives of the Namibian Chamber of Commerce and Industry and academics at Namibia University of Science and Technology. Participants in the round table emphasized a number of key challenges facing Namibian micro-, small and medium-sized enterprises, including their limited access to capital and expertise, their limited capacity for innovation, and policy illiteracy, which was at least partly due to language issues given that policies are issued in English, the country's official language, while fluency in English is far from universal in Namibia. Participants in the round table suggested a key strategy to support local micro-, small and medium-sized enterprises, namely to support their integration into the formal economy through registration in a public database. That would improve their access to external financial resources. In terms of internationalization, the positive experience of enterprises in the cosmetics sector, which was also mentioned during the meeting at the Namibia Investment Promotion and Development Board was emphasized. The Namibian Chamber of Commerce and Industry small and medium-sized enterprise development officer stressed that multinational enterprises can support the development of local micro-, small and medium-sized enterprises and that a number of multinational enterprises were members of the Namibian Chamber of Commerce. Cooperation among the Governments of Angola, Namibia and Zambia was already facilitating increased business activity across those countries. However, multinational enterprises, including, for example, South African supermarket chains, tended to supply most intermediate inputs from their home countries. Namibian micro-, small and medium-sized enterprises operating in the services sector, which were less reliant on imported inputs, were therefore more likely to benefit through the establishment of linkages with foreign multinational enterprise affiliates.

The fourth stakeholder interviewed was SMEs Competitiveness Consultancy Ltd, a social entrepreneurship entity that provides assistance to small and medium-sized business enterprises. In the interview, the director of the entity emphasized the need for effective institutional programmes and policies to promote linkages. Some economic sectors in Namibia were largely controlled by foreign multinational enterprises. Those sectors included retail (largely in the hands of multinational enterprises from Botswana and South Africa), furniture (enterprises from Botswana and South Africa) and fast-food chains (enterprises from South Africa and Zambia). The director stressed that business linkages were likely to remain weak until Namibia adopted a local content policy that imposed a minimum share of intermediate inputs that must be sourced locally. A successful local content policy had been adopted in Botswana, where foreign bakeries had been required to limit their imports of intermediate inputs within a six-month period. The director also agreed that Namibian micro-, small and medium-sized enterprises were more likely to be successful as suppliers of services, such as providers of cleaning services and small-scale maintenance, or

in small-scale manufacturing, for example as bottled water producers. The director also highlighted the lack of effective channels for communication between the private and public sectors, and emphasized that those channels were a prerequisite for the development of effective policies promoting linkages.

Another round table, which brought together the ECA consultants, academic researchers, a representative of a start-up incubator and a private consultant specializing in digitalization, was held at Namibia University of Science and Technology. Participants in that round table underscored that the cosmetics sector had benefitted from internationalization and linkages between multinational enterprises on the one hand and local micro-, small and medium-sized enterprises on the other. In collaboration with the Ministry of Industrialisation and Trade and the German Agency for International Cooperation, the Namibian Network of the Cosmetics Industry had played a key role in the development of those linkages, providing support to local micro-, small and medium-sized enterprises to help them penetrate markets abroad. One important service provided by the Namibian Network of the Cosmetics Industry was testing, which was often very costly for micro-, small and medium-sized enterprises but of critical importance if those enterprises were to improve the quality of their products and successfully compete in international markets.

5. Results of the analysis

On the basis of a literature review and the information obtained in the interviews with relevant stakeholders in Namibia, it is possible to identify a number of factors that can inform policies and programmes to promote the development of linkages between foreign multinational enterprise affiliates and local micro-, small and medium-sized enterprises.

5.1 Characteristics of micro-, small and medium-sized enterprises in Namibia

A first set of factors relates to the characteristics of micro-, small and medium-sized enterprises.

(a) According to the results of the micro-, small and medium-sized enterprise survey, more-established micro-, small and medium-sized enterprises are more likely to be chosen as suppliers to multinational enterprise affiliates and to benefit from backward linkages in terms of employment, wages, environmental sustainability, the number of foreign buyers and innovation. They also tend to receive more support from multinational enterprises than younger enterprises, both when they supply and when they buy inputs from multinational enterprise affiliates. In the interviews, the representatives of multinational enterprise subsidiaries also stressed that relevant experience, which increases as micro-, small and medium-sized enterprises become more established, is one of the most important factors that foreign affiliates of multinational enterprises take into account when selecting local suppliers. Compared with younger micro-, small and medium-sized enterprises, however, more established enterprises are less likely to establish technological partnerships with businesses abroad and are less likely to take advantage of the opportunities for innovation and investment that can stem from direct market competition with foreign companies. (Nichter and Goldmark, 2009).

(b) Micro-, small and medium-sized enterprises with a focus on exports are more likely to supply multinational enterprise affiliates and receive support from them. With respect to micro-, small and medium-sized enterprises that are more oriented to the domestic market, export-oriented enterprises also tend to benefit more from backward linkages in terms of employment, wages, investments, environmental sustainability, the number of domestic and foreign buyers and innovation. That finding is consistent with one of the findings of Amendolagine and others (2019), namely that foreign-based companies tend to buy more local intermediate inputs in sectors that are more oriented towards exports. However, foreign companies tend to choose and support local buyers that focus on domestic markets. In fact, some of the multinational enterprise affiliates interviewed highlighted the fact that local buyers are often used as intermediates to access local markets. Micro-, small and medium-sized enterprises with strong domestic market orientation can therefore play an important role for multinational enterprises wishing to establish forward linkages. Moreover, export-oriented micro-, small and medium-sized business enterprises and enterprises focused on domestic markets face similar challenges but are likely to benefit to a similar extent from direct market competition through horizontal linkages. Export-oriented enterprises are, however, less likely to establish technological partnerships with multinational enterprise subsidiaries.

(c) Innovative micro-, small and medium-sized enterprises are more likely to establish backward and forward linkages with foreign-owned companies than with domestic enterprises, although they receive, on average, less support from foreign buyers and suppliers. Some of the multinational enterprises interviewed highlighted that the willingness of local micro-, small and medium-sized

enterprises to update their production processes to meet input needs is a crucial factor that they take into consideration when selecting local suppliers. Furthermore, innovative micro-, small and medium-sized enterprises tend to reap significant benefits as suppliers to multinational enterprise affiliates in terms of employment, wages, investments, environmental sustainability, the number of domestic and foreign buyers of their products, and product and process innovation. They are also more likely than other enterprises to benefit from direct competition with foreign companies in local markets and to establish technological partnerships with multinational enterprise subsidiaries. The capacity to innovate provides a distinct competitive advantage to companies in developing countries (Verhoogen, 2023), particularly for small African companies (Makanyeza and Dzvuke, 2015), inter alia because it increases opportunities for companies to reap the benefits stemming from linkages with enterprises abroad.

(d) Larger local companies are more likely than smaller enterprises to be chosen as suppliers by foreign multinational enterprise affiliates and receive support from them. Larger companies also tend to benefit more from backward linkages in terms of wages, investments, environmental sustainability, the number of domestic and foreign buyers and innovation. Some of the multinational enterprise representatives interviewed stressed that enterprise size was one of the most relevant factors that they took into consideration when selecting local suppliers, and all the representatives interviewed emphasized that having sufficiently large and reliable inventories was another factor that was taken into consideration in that decision. Forward linkages were also more likely to be established between larger business enterprises and foreign companies. Small size is therefore one of key obstacles that prevent micro-, small and medium-sized enterprises in developing economies for accessing international value chains (Asian Development Bank, 2015; Mutalemwa, 2015). Nevertheless, while they are less likely to establish and benefit from vertical linkages to foreign companies, smaller local companies seem, on average, to be more responsive to foreign competition in local markets in that they demonstrate greater capacity to mobilize investments and foster innovation. That might be due to the greater flexibility often demonstrated by smaller companies, which can therefore adapt more rapidly to changes in market competition driven by the entrance of foreign players (Kaplinsky and Morris, 2019). Some of the representatives of multinational enterprise subsidiaries interviewed in Namibia admitted that their enterprises had sometimes faced competition with very small local competitors that successfully introduced new products in response to foreign competition.

(e) Obtaining product quality certification can help micro-, small and medium-sized enterprises establish backward linkages, forward linkages and technological partnerships with foreign multinational enterprise affiliates. Product certification is a key factor that facilitates access by micro-, small and medium-sized enterprises to international value chains (Asian Development Bank, 2015). Micro-, small and medium-sized enterprises whose products have been certified are also more likely to receive support from both foreign buyers, in the case of backward linkages, and foreign sellers, in case of forward linkages, and, moreover, to react to foreign competition in local markets through investments and innovation. Indeed, most of the representatives of multinational enterprise affiliates interviewed highlighted product certification as a very important factor that they took into account when choosing a local supplier.

(f) Access to external funding provides a competitive advantage to local micro-, small and medium-sized enterprises in terms of the probability that they will be offered support by foreign buyers through backward linkages. Furthermore, it is apparent that external funding can help micro-, small and medium-sized enterprises react to market competition from foreign players by facilitating investment and innovation. Indeed, access to external funding is a key competitiveness factor for small companies in developing countries (Nichter and Goldmark, 2009; Dupas and Robinson, 2013), particularly in Africa (Derbyshire and Fouché, 2018). This was confirmed by the representatives of institutional stakeholders

interviewed in Namibia, who also emphasized that informality, one of the main challenges for Namibian micro-, small and medium-sized enterprises, was a major impediment that prevented those enterprises from accessing external funds. The results of the micro-, small and medium-sized enterprise survey revealed, however, that micro-, small and medium-sized enterprises that mobilized personal sources of funding in combination with external resources did not enjoy an advantage over other firms in terms of their chances of being selected by multinational enterprise subsidiaries as buyers of intermediate inputs or as technological partners.

(g) Although the representatives of multinational enterprises interviewed emphasized that the level of education of the local labour force was a key factor informing the decision of those enterprises to establish affiliates in Namibia, the findings of the micro-, small and medium-sized enterprise survey do not support the view that companies with a relatively well-educated workforce are better able to establish backward or forward linkages or technological partnerships with foreign companies. In that connection, it should be noted that a lack of vocational training was highlighted by Namibian institutional stakeholders as a major weakness of local micro-, small and medium-sized enterprises. Most of the multinational enterprise affiliate representatives who were interviewed stated that their companies provided support to local suppliers, including in the form of training courses, visits to their suppliers and opportunities for supplier employees to visit the premises of the foreign buyer. That finding is supported by Kottaridi, Louloudi and Karkalakos (2019), who showed that vocational training for local employees in developing countries can provide those employees with skills that are more relevant to foreign investors than the skills they tend to learn in the general educational system.

(h) A larger proportion of female workers in the workforce is not correlated with an increased likelihood that micro-, small and medium-sized enterprises will successfully establish vertical linkages and technological partnerships with foreign companies. The presence of relatively high numbers of female workers is, however, correlated with increased capacity to mobilize investments and support innovation to address direct competition by multinational enterprise affiliates. That finding is in line with the conclusions of other studies, including Dupas and Robinson (2013) and Ojong, Simba and Dana (2021), who concluded that companies in Africa with a relatively high proportion of female managers tended to be more successful and were often better able to mobilize investments and support innovation than business enterprises with relatively few female workers.

5.2 Geography and direct/indirect linkages

The micro-, small and medium-sized enterprise survey revealed that enterprises that are located in the vicinity of multinational enterprise affiliates, namely within five kilometres of at least one foreign company, are more likely to be engaged in backward linkages and technological partnerships than enterprises that are located further away from the multinational enterprise affiliate. Furthermore, enterprises located close to multinational enterprise affiliates are more likely to reap the benefits stemming from the provision of intermediate inputs to those affiliates, including in areas such as employment, wages, investments, the number of domestic and foreign buyers and innovation, and from direct competition with foreign players in local markets. That finding confirms that geographical closeness can enhance positive spillovers resulting from the presence of multinational enterprises (Mendola, Prarolo and Sonno, 2022). Inter-firm closeness is more likely to occur in urban areas, where relatively more developed infrastructure facilitates linkages (Kirsten and Rogerson, 2010). Indeed, when interviewed, the representatives of foreign companies in Namibia confirmed that physical proximity to the multinational enterprise and/or closeness to transport infrastructure was often the most important factor considered by multinational business enterprises when selecting their local suppliers. Nevertheless, foreign companies often prefer to

collaborate with more distantly-located micro-, small and medium-sized enterprises when establishing forward linkages. This is probably because more distantly-located enterprises can act as distributors that can support efforts by multinational enterprises to reach distant markets.

One further result from the data collected through interviews with micro-, small and medium-sized enterprises in Namibia is that local companies that only indirectly supply multinational enterprise affiliates, that is to say through higher-tier suppliers, are less likely to receive support from foreign buyers than direct suppliers. That finding corroborates the data collected on indirect backward linkages by Villena and Gioia (2020) and could be due to the fact that some multinational enterprise affiliates do not have a clear understanding of who their indirect suppliers are, impeding knowledge transfer to those suppliers and making it more difficult to support their financial, social and environmental sustainability.

5.3 Industry

Research has shown that linkages between multinational enterprises and local companies are established more often in industry than in other economic sectors and that the impact of those linkages can be particularly noticeable in industrial enterprises (Görg and Strobl, 2002; Sánchez-Martín, Piniés and Antoine (2015); Alfaro-Urena, Manelici and Vasquez (2022). That fact also emerged in the interviews conducted with micro-, small and medium-sized enterprises and with multinational enterprises subsidiaries. Most of the multinational enterprise representatives interviewed emphasized that the presence or otherwise of local suppliers was a major consideration for their companies when they made investment decisions. According to data collected through the micro-, small and medium-sized enterprise survey, manufacturing-sector enterprises are more likely than enterprises in other sectors to establish backward linkages with foreign companies and, together with micro-, small and medium-sized enterprises in primary sectors, to receive support from foreign buyers. Local manufacturing- and service-sector suppliers are also more likely to benefit from backward linkages in terms of innovation. That finding confirms one of the conclusions of Alfaro-Urena, Manelici and Vasquez (2022), who found that backward linkages are associated with larger benefits for manufacturing-sector suppliers than for other types of business enterprise. On the other hand, local micro-, small and medium-sized enterprises operating in service sectors seem to be preferred by multinational enterprises when establishing forward linkages. Indeed, in the interviews, the representatives of multinational enterprise affiliates confirmed that micro-, small and medium-sized enterprises, acting as retailers or distributors, can facilitate efforts by multinational enterprises to penetrate local markets, especially in manufacturing. Small and medium-sized enterprises in both manufacturing and service sectors are also more likely to take advantage of horizontal linkages, which can help them mobilize investments and support innovation, potentially leading to new products and production processes. Finally, it should be noted that small local primary- and service-sector enterprises are more likely to be selected as technological partners by multinational companies.

5.4 Origin of multinational enterprises

Data obtained through the micro-, small and medium-sized enterprise survey reveal that suppliers to African multinational enterprise affiliates are more likely to receive support than suppliers to non-African multinational enterprises and, in turn, to benefit from backward linkages including in areas such as employment, wages, investments, environmental sustainability, the number of national and foreign buyers, and product and production innovation. Most of the South African multinational enterprise subsidiaries interviewed in Namibia stated that they supported their local suppliers in several ways,

including by providing instruction manuals, offering training to workers at their suppliers, and visiting the premises of their suppliers and providing business advice. Those findings reflect those of other researchers. Coniglio, Hoxhaj and Seric (2017), for example, find that multinational enterprises are more likely to boost local employment in Africa when the distance between the origin and destination of FDI is relatively short. Gold and others (2017) show that, through their provision of FDI, African multinational enterprises not only boost employment in African countries but also facilitate technological transfer to the countries where they place their investments. Fessehaie (2012) and Fessehaie and Morris (2013), exploring the copper mining sector in Zambia, find that foreign multinational enterprises from the United States of America, European Union member States and South Africa are often keen to provide technical assistance to local suppliers with the aim of increasing the quality of production. In the apparel industry, Morris, Plank and Staritz (2016) and Morris and Staritz (2017) comparing Asian and African multinational enterprises, find that African investors tend to source more inputs locally and are often more willing than Asian investors to interact with and train local suppliers to help them transition to higher value added activities. On the other hand, micro-, small and medium-sized enterprises supplying Asian multinational enterprises are likely to receive benefits from backward linkages only through certain channels: wages and environmental sustainability in the case of linkages with investors based in China; and employment, investments, environmental sustainability and the number of national buyers in the case of linkages with investors based in India. It appears that linkages with Asian buyers fail to result in increased innovation among local suppliers through knowledge transfers, perhaps as a result of language and cultural barriers (Fessehaie, 2012; Fessehaie and Morris, 2013), or the greater geographical distance between multinational enterprises and their suppliers (Morris, Plank and Staritz (2016). On the other hand, micro-, small and medium-sized enterprises that supply intermediate inputs to multinational enterprises based in Europe and the United States of America often receive support for innovation, namely funds to help them improve the quality of products and enhance their production processes.

Finally, an analysis of the data obtained in the context of the micro-, small and medium-sized enterprise survey does not reveal any clear differences among multinational enterprises of different origins in terms of their willingness to establish forward linkages with local micro-, small and medium-sized enterprises, although some differences in terms of horizontal linkages are apparent. In that connection, it appears that micro-, small and medium-sized enterprises in direct competition in local markets with African multinational enterprise affiliates respond to that competition by increasing investment and promoting innovation; on the other hand, businesses competing with the affiliates of multinational enterprises from the global North and Asia tend to lose market share, a finding that is in line with those of Wegenast and others (2019).

6. Policy implications

On the basis of the information provided in the context of this study by domestic and foreign business enterprises and by institutional stakeholders, the following policy suggestions are made with a view to promoting business linkages in Southern Africa and maximizing their potential benefits.

6.1 Developing the capacities of local producers

Developing the capacities of local producers is a crucial step that can strengthen linkages and raise the value added of goods and services sourced locally by multinational enterprises. Local business enterprises are often able to supply only low value added services and natural resources. Building the capacities of local producers could be achieved by:

(a) Supporting innovation by local businesses. More innovative micro-, small and medium-sized enterprises are more likely to establish relationships with affiliates of companies based abroad through vertical linkages and to benefit from both vertical and horizontal linkages. Innovation could be encouraged by improving public education systems and enhancing vocational training to help the local labour force meet multinational enterprise specific skill requirements. Multinational enterprises could be asked to participate in the design and implementation of specific training programmes, as suggested by the Bokamoso Entrepreneurial Center;

(b) Enhancing access to financial resources for micro-, small and medium-sized enterprises. A first step in that regard would be to improve the credit worthiness of those enterprises by facilitating their integration into the formal economy, starting with their registration in public databases. The Namibia Investment Promotion and Development Board is currently taking steps to achieve that goal. As is widely known, informality is a major challenge for micro-, small and medium-sized enterprises in developing countries that prevents them from accessing funding sources beyond family or personal savings (Nichter and Goldmark, 2009; Asian Development Bank, 2015; Ulyssea, 2018). Another step would be to relax the requirements that micro-, small and medium-sized enterprises in Namibia must meet in order to access credit. Doing so would allow many of those enterprises to purchase essential equipment and foster innovation.

6.2 Promoting product certification

Product certification, and particularly international certification, can significantly improve opportunities for linkages between multinational enterprise affiliates and local micro-, small and medium-sized enterprises. Certificating product quality may prove too costly for many micro-, small and medium-sized enterprises, however (OECD-UNIDO, 2019; OECD, 2021). Potential ways to promote product certification by micro-, small and medium-sized enterprises include:

(a) Raising awareness among micro-, small and medium-sized enterprises of the importance of product certification in trade with leading market players, and particularly with those whose headquarters are located abroad;

(b) Providing financial assistance to micro-, small and medium-sized enterprises to help cover the costs associated with the product certification process, as this may encourage enterprises that may not otherwise be able to afford it to seek certification for their products;

(c) Harmonizing product certification regimes, at least at the subregional level, as that could reduce the need for enterprises to obtain different types of certification to enter and compete in subregional markets. In that regard, it should be noted that although almost half the micro-, small and medium-sized enterprises interviewed have obtained quality production certification for their outputs, most of their quality certificates are issued by national authorities and may not necessarily be recognized by multinational enterprises based outside the country.

6.3 Strengthening relationships between multinational enterprise affiliates and micro-, small and medium-sized enterprises

Linkages and their associated benefits tend to be stronger between multinational enterprise affiliates and micro-, small and medium-sized enterprise suppliers that are located at reasonable distance from each other. Some possible policy actions to strengthen linkages between multinational enterprises based outside the country and local enterprises include:

(a) Developing industrial areas where multinational enterprise subsidiaries and micro-, small and medium-sized enterprises could locate their operations. This could also support clustering and cooperation among micro-, small and medium-sized enterprises (OECD, 2021);

(b) Enhancing transportation infrastructure to reduce travel times and the costs associated with transport between micro-, small and medium-sized enterprises and multinational enterprise affiliates. Some of the multinational enterprise representatives interviewed in Namibia emphasized that access to good transport infrastructure was a key factor that was taken into consideration in the selection of local suppliers;

(c) Enhancing access by micro-, small and medium-sized enterprises to electricity and to telephone and Internet services could lower the costs associated with communications between micro-, small and medium-sized enterprises and multinational enterprise affiliates. In turn, that could enhance the management of business operations and the efficiency of vertical linkages (OECD, 2021).

6.4 Increasing the prevalence of first-tier linkages

The benefits for micro-, small and medium-sized enterprises stemming from backward linkages, including, in particular, the provision of training by multinational enterprises, are often greater when the supplier and multinational enterprise establish a direct relationship within the value chain. Indeed, multinational enterprise subsidiaries are sometimes unaware of the situation and needs of lower-tier suppliers, impeding knowledge transfer. Increasing the prevalence of first-tier linkages could also help address social and environmental challenges related to value chains involving foreign multinational enterprises (Villena and Gioia, 2020).

6.5 Fostering the development of manufacturing sectors

The development of manufacturing sectors can result in positive spillovers through FDI-driven linkages. The analysis presented in this report reveals that micro-, small and medium-sized enterprises operating

in manufacturing sectors are more likely than enterprises in other economic sectors to establish backward linkages with foreign multinational enterprises and to benefit from the support of foreign buyers. Moreover, they are likely to benefit from both backward and horizontal linkages in terms of attracting new investments and innovation (Alfaro-Urena, Manelici and Vasquez (2022).

6.6 Boosting regional foreign direct investment and promoting implementation of the Agreement Establishing the African Continental Free Trade Area while also adopting local content policies

The analysis presented in this report reveals that linkages with African multinational enterprise affiliates are likely to benefit local micro-, small and medium-sized enterprises. In particular, backward linkages with African multinational enterprises appear to have a positive impact on local supplier employment (as is the case with Asian multinational enterprises) and innovation (as is the case with enterprises based in the United States of America and the European Union). This suggests that efforts should be made to boost intra-African FDI and accelerate implementation of the Agreement Establishing the African Continental Free Trade Area and the SADC Free Trade Agreement. However, the interviews with representatives of multinational enterprises and institutional stakeholders in Namibia revealed that African multinational enterprises still tend to source many of their intermediate inputs from their countries of origin. Setting minimum local content requirements for multinational enterprises, even if only temporarily and limited to certain sectors, may be a necessary step if African countries are to boost significantly the local sourcing of inputs for multinational enterprises.

6.7 Improving the collection of data on linkages

As the results presented in this report show, linkages between local micro-, small and medium-sized enterprises and foreign multinational enterprises can boost positive spillovers from inward FDI in Southern Africa. The specific opportunities and benefits stemming from those linkages depend on a number of factors, however. These include company-specific characteristics, the industry in which the linkages are established, geography, and the home countries of multinational enterprises. Governments should therefore give priority attention to the collection of specific survey data from both local micro-, small and medium-sized enterprises on the one hand, and foreign multinational enterprises on the other (the collection of data from the latter is likely to be the more challenging task) in order to deepen understanding of linkages and implement more effective policies that can help countries in Southern Africa forge successful linkages between and among business enterprises.

7. Conclusions

ILO estimates that small and medium-sized enterprises account for more than two thirds of total employment in developing and emerging economies (ILO, 2019). In the Middle East and North Africa, self-employment and microenterprises, namely enterprises with fewer than 10 employees, account for some 70 per cent of total employment, while in sub-Saharan Africa they account for approximately 80 per cent (in some countries, including Mali, they account for almost 100 per cent of employment).

Verhoogen (2023), reviewing research on firm-level upgrading in developing economies, describes two major channels by which business enterprise upgrading occurs. The first channel involves reaching out to consumers abroad, either directly or indirectly, through participation in international value chains. The second channel involves developing specialized company know-how by learning from other firms. Both those channels for upgrading can occur through linkages between local companies and affiliates of multinational enterprises (UNCTAD, 2004; Jenkins and others, 2007; World Bank, 2018). In more detail, vertical linkages can provide local companies with indirect access to foreign markets through international value chains. For example, local companies can supply intermediate goods to local affiliates of foreign multinational enterprises that, in turn, trade with international and potentially more developed markets. Moreover, horizontal linkages, established through direct competition in local markets or technological collaboration with foreign multinational enterprises can give local businesses the opportunity to learn innovative technologies and develop new products.

Implementation of the Agreement Establishing the African Continental Free Trade Area, which entered into force in 2019, is expected to support African economies by strengthening cross-border value chains. The aim of the Agreement is to establish the world's largest common market, with aggregate GDP of approximately $3.4 trillion, by providing for the removal of tariff and non-tariff barriers and facilitating trade. In 2019, processed and semi-processed goods accounted for 79 per cent of intra-African exports, but only 41 per cent of African exports to other destinations. This suggests that African economies could be particularly successful at building value chains within the region, in part because of the relatively short geographical, social, cultural and institutional distances among African producers (AUC and OECD, 2022).

The empirical analysis of linkages in Southern African countries discussed in the present report was conducted on the basis of data collected through two surveys, namely the micro-, small and medium-sized enterprise survey, which was addressed to local micro-, small and medium-sized enterprises, and the multinational enterprises survey, which was addressed to local affiliates of foreign multinational enterprises. The micro-, small and medium-sized enterprise survey was completed by 62 micro-, small and medium-sized enterprises active in a variety of economic sectors in Botswana, Lesotho, Mauritius, Mozambique, Namibia and Zambia. The multinational enterprise survey was completed by the managers of five foreign multinational enterprise affiliates, namely two South-African food retailers, two South African manufacturing enterprises and one Japanese enterprise active in the fishing sector. During the field mission to Namibia, relevant institutional stakeholders were also interviewed and asked about the status of linkages in the country and about opportunities and challenges faced by companies in that regard.

The analysis revealed that a number of factors can help foster linkages between local micro-, small and medium sized enterprises on the one hand and multinational enterprises on the other. A first set of factors relates to the characteristics of micro-, small and medium-sized enterprises. Older micro-, small and medium-sized enterprises are more likely to be chosen as suppliers to multinational enterprise affiliates

and to benefit from backward linkages in terms of employment, wages and innovation. Compared with younger micro-, small and medium-sized enterprises, however, more established enterprises are more likely to experience a fall in sales following the entry into domestic markets of foreign competitors.

Micro-, small and medium-sized enterprises with a focus on exports are more likely to supply multinational enterprise affiliates and receive support from them. With respect to micro- , small and medium-sized enterprises that are more oriented to the domestic market, export-oriented enterprises tend to benefit more from backward linkages in terms of employment, wages and innovation.

Larger local companies are more likely than smaller enterprises to be chosen as suppliers and buyers by foreign multinational enterprise affiliates and receive support from them. However, smaller micro-, small and medium-sized enterprises seem, on average, to respond more effectively to foreign competition in local markets by mobilizing investment and supporting innovation. Innovative micro-, small and medium-sized enterprises are more likely to establish vertical linkages with foreign-owned companies and tend to benefit from backward linkages in several areas, including employment, wages and product innovation. They are also likely to prove resilient in the face of increased market competition stemming from the entry into the market of foreign companies, responding by stepping up their investments and innovation. Access to external funding provides a competitive advantage to local micro-, small and medium-sized enterprises in terms of the probability that they will be offered support by foreign buyers through backward linkages. Furthermore, it is apparent that external funding can help micro-, small and medium-sized enterprises react to market competition from foreign players by facilitating investment and innovation. Product quality certification can help micro- , small and medium-sized enterprises establish vertical linkages and technological partnerships with multinational enterprises and mobilize support. Quality certification can also facilitate efforts by local companies to respond effectively to increased competition following the entry of foreign companies into domestic markets.

Geography was also found to play a key role in the development of value chains. In fact, micro-, small and medium-sized enterprises that are located within five kilometres of at least one foreign company, are more likely to be engaged in backward linkages and technological partnerships than enterprises that are located further away from a multinational enterprise affiliate. Furthermore, enterprises located close to multinational enterprise affiliates are more likely to reap the benefits stemming from the provision of intermediate inputs to those companies. The greater the distance between the local business enterprise and the multinational enterprise affiliate, the lower the probability that the local enterprise will be able to establish a direct relationship with the foreign player. Indeed, local companies that only supply multinational enterprise affiliates indirectly, namely through higher-tier suppliers, are unlikely to benefit from the support of foreign buyers.

Micro-, small and medium-sized enterprises operating in manufacturing sectors are more likely than enterprises in other economic sectors to establish backward linkages with foreign multinational enterprises and to benefit from the support of foreign buyers. Moreover, they are likely to benefit from backward linkages through increased support for the development of innovative products. They are also more likely to respond effectively to foreign competitors by stepping up their investments in research and development.

African multinational enterprise affiliates are more likely to provide support to their local suppliers than the affiliates of non-African multinational enterprises. In turn, their suppliers are likely to benefit from backward linkages, including in areas such as employment, wages, investments, environmental sustainability, the number of national and foreign buyers, and product and production innovation.

In that connection, it appears that micro-, small and medium-sized enterprises in direct competition in local markets with African multinational enterprise affiliates respond to that competition by increasing

investment and promoting innovation; on the other hand, those businesses competing with the affiliates of multinational enterprises from the global North and Asia tend to lose market share.

Although the interviews held with representatives of multinational enterprise affiliates during the ECA mission to Namibia mostly confirmed the data collected in the context of the micro-, small and medium-sized enterprise survey, interviews with companies based in other countries would enrich and provide more context to the analysis. Unfortunately, despite several attempts to contact foreign affiliates in other countries by telephone and by email, no further responses to the multinational enterprises survey were received. Study missions to other countries in the subregion may therefore be needed in order to deepen understanding of the perspectives of multinational enterprises on linkages with micro-, small and medium-sized enterprises in Southern Africa.

Annex

A. Table

Table A1. Foreign origin of value added exported by economic sector (Percentage of total value added exported)

Economic sector	Angola	Botswana	Eswatini	Lesotho	Malawi	Mozambique	Namibia	Zambia
Agriculture	4.73	18.30	13.14	14.77	6.12	3.30	11.32	4.92
Fishing	8.90	33.25	20.94	64.84	18.58	9.65	19.86	13.77
Mining and quarrying	4.50	20.30	73.40	34.83	18.21	8.07	18.43	10.21
Food and beverages	10.02	38.45	37.09	31.89	18.43	10.44	25.03	12.29
Textiles and wearing apparel	12.44	40.50	46.00	42.62	22.26	14.78	32.17	16.49
Wood and paper	9.69	37.07	46.61	40.88	23.12	12.89	33.13	15.17
Petroleum, chemical and non-metallic mineral products	13.83	51.91	61.62	33.95	25.52	15.35	39.00	22.83
Metal products	11.00	40.81	51.17	38.20	26.09	14.16	35.86	14.25
Electrical and machinery	12.83	39.66	49.25	36.01	28.47	14.63	38.19	19.80
Transport equipment	16.93	46.48	58.36	47.60	34.44	18.59	45.70	25.41
Other manufacturing	11.72	37.01	46.90	52.42	27.45	14.86	36.27	18.48
Recycling	11.46	36.97	60.78	68.11	31.12	16.79	34.85	20.77
Electricity, gas and water	4.01	19.53	51.32	20.48	12.87	5.61	13.08	7.96
Construction	5.94	24.39	42.35	31.12	16.29	8.05	22.91	8.86
Maintenance and repair	4.67	16.53	30.98	77.21	20.13	10.02	18.99	10.59
Wholesale trade	3.48	10.91	25.19	47.18	9.80	4.22	12.18	5.75
Retail trade	2.56	8.50	22.26	31.41	7.09	3.24	9.81	4.21
Hotels and restaurants	5.59	19.32	35.90	35.94	11.81	6.54	18.55	7.73
Transport	5.88	25.92	42.47	55.26	17.13	7.89	23.00	11.76
Post and telecommunications	3.28	11.78	22.07	34.40	9.46	3.98	13.37	6.20
Financial intermediation and business activities	2.28	6.18	16.79	15.51	6.33	2.40	7.47	3.86
Public administration	4.79	17.59	34.60	33.83	14.81	6.14	16.13	8.33
Education, health and other services	3.54	11.35	24.71	21.60	9.44	3.93	10.89	6.04
Private households	6.38	24.07	36.40	76.79	26.21	9.40	22.93	13.90
Others	4.62	15.52	34.14	70.44	20.63	10.09	17.80	10.64
Re-export and re-import	98.30	97.52	96.19	99.96	99.36	96.20	99.39	93.72

Source: *Author's elaboration on the basis of UNCTAD-Eora (n.d.).*

Note: *Data refer to 2015. Mauritius and South Africa are not included in the table due to data unavailability. The re-export and re-import sector is excluded from the overall calculations because, by definition, it includes valued added traded internationally.*

B. Micro-, small and medium-sized enterprise survey

General profile of the company

1. Please give the name and the address (country, city) of your company.
2. Please list up to three major products of the company.
3. When did this company start its operations?
4. What was this company's main source of financing for the initial investment? (Please mark only one option)
   - ○ From family or friends
   - ○ Personal savings
   - ○ Income from other businesses
   - ○ Commercial banks
   - ○ Microfinance institutions
   - ○ Other
5. In the last financial year, what was (Please use local currency for monetary values)
   - ○ The value of sales?
   - ○ The value of exports?
   - ○ The number of full-time employees?
   - ○ The share of females in full-time employees?
   - ○ The share of full-time employees with at least secondary school education?
6. Please provide names and main products of the affiliates of foreign companies operating up to 5 kilometres far from your company, along with the country origin of the foreign investor.
7. During the last three financial years, has this company introduced new or significantly improved products and services into the market?
   - ○ Yes
   - ○ No
8. If YES, which one?

9. During the last three financial years, has this company introduced new production processes, including methods of supplying services and ways of delivering products?
   - ○ Yes
   - ○ No
10. If YES, which one?

11. Are any of this company's products or production processes certified by a national or international certification agency?

    ○ Yes

    ○ No

12. If YES, which agency?

Horizontal linkages

13. Do you compete in the local market with affiliates of foreign companies?

    ○ YES

    ○ NO

If YES:

14. Please indicate the country origin of the foreign competitors.
15. How would you evaluate the presence of the foreign competitor? (Please mark only one option)

    ○ It stimulates investments and innovation for my company

    ○ It reduces the sales of my company

    ○ I do not know

Backward linkages

16. Do you sell –directly or indirectly – intermediate inputs to local affiliates of foreign companies?

    ○ YES

    ○ NO

If YES:

17. Please indicate the location and main product of the buyer(s) you supply, along with the country of origin of the foreign owner.
18. What do you supply?
19. Do you sell DIRECTLY and/or INDIRECTLY through local distributors? (Please mark only one option)

    ○ Directly

    ○ Indirectly

    ○ Both

20. What is the value of the inputs you provide? (in local currency)

21. Do you expect to expand the provision of inputs to that company?

- ○ YES
- ○ NO

22. What is the share of inputs you provide under long-term supply contracts?

23. Which of the following options best describes the way in which the foreign affiliates provide support to your company? (Please mark all the answers that are true)

- ○ The foreign company provides an instruction manual (blueprint) of the desired product or service or other relevant documentation
- ○ Employees of the foreign company visit my company and provide advice in the adjustment process
- ○ The foreign affiliate has standardized training programmes that are offered to the employees of my company
- ○ The foreign affiliate puts my company in contact with other suppliers that sell similar products or services in other places to advise on best practices
- ○ The foreign affiliate lends money or pays my company in advance so that my company can make the necessary investments
- ○ The foreign affiliate buys the specific machinery necessary to provide the goods/service and lends/rents it to my company
- ○ There is no support
- ○ Other

Since you started supplying the foreign affiliates:

24. How has the number of the employees in your company changed?

- ○ Increased
- ○ Decreased
- ○ Remained the same

25. How have average wages changed?

- ○ Increased
- ○ Decreased
- ○ Remained the same

26. How have investments changed?

- ○ Increased
- ○ Decreased
- ○ Remained the same

27. How has the environmental sustainability of your production process changed?

- ○ Increased
- ○ Decreased
- ○ Remained the same

28. How has the number of further buyers from your country changed?

- ○ Increased
- ○ Decreased
- ○ Remained the same

29. How has the number of further buyers from foreign countries changed?

- ○ Increased
- ○ Decreased
- ○ Remained the same

30. How has the value of exports of your company changed?

- ○ Increased
- ○ Decreased
- ○ Remained the same

31. Did you introduce product innovation?

- ○ YES
- ○ NO

32. Did you introduce production process innovation?

- ○ YES
- ○ NO

Forward linkages

33. Do you buy any intermediate inputs from local affiliates of foreign companies located in your country?

- ○ YES
- ○ NO

If YES:

34. Please indicate the location and main product of the companies you buy from, along with the country origin of the foreign owner.

35. What do you buy?

36. Why do you buy those inputs? (Please mark only one option)

- ○ They are available in my company, but they are scarce in quantity
- ○ They are not available in my company
- ○ Other

37. Did the foreign company assist you in the use of the input(s) they sold to your company?

- ○ YES
- ○ NO

Linkages to technological partners

38. Does your company have technological partnerships with local affiliates of foreign companies?

- ○ YES
- ○ NO

39. If YES, which is the most relevant type of technological partnership?

Other spillover forms

40. Are some of the employees of your company former employees of local affiliates of foreign companies?

- ○ YES
- ○ NO

41. If in your company there are former employees of foreign affiliates, how many are:

- ○ Production workers?
- ○ Administrative/management staff?

C. Multinational enterprise survey

General profile of the company

1. Please give the name and the address of your company.
2. Please briefly describe the foreign investor, the objective of the foreign investor, how the foreign investor started business operations in this country and the timing of major investments.
3. Please list up to three major products of the company and indicate their share of total sales.
4. To your knowledge, how important were the following factors in the decision of the multinational to invest in this country? (For each factor, please indicate whether it was very important, important, an advantage but not that important, or not important)
    - ○ The distance between this country and the headquarter's country
    - ○ The distance between this country and the multinational's target market
    - ○ The market of this country itself
    - ○ The level of education of the labour force
    - ○ Relatively low wages for the types of employees needed by the multinational
    - ○ Benefits from international trade agreements, such as the Agreement Establishing the African Continental Free Trade Area
    - ○ The presence of a specific local partner
    - ○ The availability of suppliers at the prices and/or quality that the multinational needs
5. In the last financial year, what percentage of this company's sales was exported? (Please mark only one option)
    - ○ 0 per cent
    - ○ > 0 per cent and < 10 per cent
    - ○ >= 10 per cent and < 50 per cent
    - ○ >= 50 per cent and < 75 per cent
    - ○ >= 75 per cent and < 100 per cent
    - ○ 100 per cent

6. What was the share of exports to the following destinations?
    - ○ Africa
    - ○ China
    - ○ India
    - ○ United States of America
    - ○ European Union
7. If the company exported to other Southern African countries, please indicate the top three destinations.
    - ○ Angola
    - ○ Botswana
    - ○ Eswatini
    - ○ Lesotho
    - ○ Malawi
    - ○ Mauritius
    - ○ Mozambique
    - ○ Namibia
    - ○ South Africa
    - ○ Zambia
    - ○ Zimbabwe
8. In the last financial year, what was the value of imports (in local currency)?
9. What was the share of imports from the following origins?
    - ○ Africa
    - ○ China
    - ○ India
    - ○ United States of America
    - ○ European Union

10. If the company imported from other Southern African countries, please indicate the top three country origins

    - ○ Angola
    - ○ Botswana
    - ○ Eswatini
    - ○ Lesotho
    - ○ Malawi
    - ○ Mauritius
    - ○ Mozambique
    - ○ Namibia
    - ○ South Africa
    - ○ Zambia
    - ○ Zimbabwe

Backward linkages

11. How many local suppliers does this company have?
12. What is the total number of local suppliers of micro size, small size and medium size?

    - ○ Micro (no more than 10 employees)
    - ○ Small (more than 10 employees and no more than 50 employees)
    - ○ Medium (more than 50 employees)

13. What is the number of long-term suppliers of micro size, small size and medium size?

    - ○ Micro (no more than 10 employees)
    - ○ Small (more than 10 employees and no more than 50 employees)
    - ○ Medium (more than 50 employees)

14. Overall, what is the share of input value that is sourced by local companies of micro, small and medium size?

15. In general, how important are the following criteria when choosing micro-, small and medium-sized suppliers in this country? (For each factor, please indicate whether it is: of critical importance; very important; important; useful, but not a decisive factor; without importance)

- ○ The physical distance between the supplier and the company
- ○ Having previous experience with foreign-owned companies
- ○ Having previous experience with exporting
- ○ Being from the same country as the foreign owner
- ○ Being foreign-owned, even if not from the same country as the company
- ○ Environmental sustainability
- ○ Fiscal or tax efficient supply chain reasons
- ○ Provisions in international trade agreements, such as the Agreement Establishing the African Continental Free Trade Area
- ○ The price of goods or services already on offer
- ○ The quality of goods and services already on offer
- ○ Willingness or ability to adapt and supply the exact product or service needed by the company
- ○ Having a manager (or employee) who speaks the main language of the multinational
- ○ Reliability/inventory management/input traceability/other characteristics of the organization
- ○ Having standardized quality certificates that are relevant for the business
- ○ The size of the supplier, that is to say, it already has sufficient productive capacity
- ○ The willingness or ability to make large investments to supply the multinational
- ○ Linkages to other suppliers of larger size
- ○ Reputation
- ○ Closeness to strategic transport infrastructure (airports, ports, motorways, railways, etc.)

16. Does your company provide any particular support or guidance to micro-, small and medium-sized suppliers to improve their ability to supply the company?

- ○ YES
- ○ NO

17. If YES, which of the following options describe the way(s) in which your company provides support to micro-, small and medium-sized suppliers? (Please mark all the answers that are true)

- ○ The company provides an instruction manual (blueprint" of the desired product or service or other relevant documentation
- ○ Employees of the company visit the supplier and provide advice on the adjustment process (for example, the company performs supplier audits and guides the supplier on ways to improve)

- ○ Employees of the supplier are invited to visit the company to observe parts of its production that are relevant to the inputs they will supply to the company
- ○ The company has standardized training programmes that the company offers to employees of local suppliers
- ○ The company puts the supplier in contact with another supplier that sells similar products or services to the company in other places to advise the supplier on best practices
- ○ The company lends money or pays the firm in advance so that the firm can make the necessary investments
- ○ The company buys the specific machinery necessary to provide the goods/service and lends/rents it to the local supplier
- ○ Other

18. If possible, please provide more details on the most important way in which you company assists the suppliers.

19. How is the supplier expected to compensate for the support received? (Please mark only one option).

- ○ The support provided is NOT intended to be reciprocated. For example, this support is part of the corporate social responsibility strategy of the company
- ○ The support must be corresponded through lower prices in the short term than the prices that the firm could offer before the collaboration with the company, for the same product or service
- ○ The support must be corresponded through a trend of gradually decreasing prices compared to the prices that the firm could offer before the collaboration with the multinational, but for the same product or service
- ○ The support must be corresponded through ensuring a higher quality of the product/ service, but with prices that do not change much
- ○ The support must be corresponded through ensuring a greater quality of the product/ service and with prices also falling
- ○ The support must be reciprocated through an exclusivity contract between the firm and the company: the firm must become an exclusive supplier
- ○ Other

20. What are the potential reasons to end or reduce sourcing from local suppliers of micro, small, medium size? (Please choose all options that are true)

- ○ Local prices are not competitive
- ○ Product or service quality is not satisfactory
- ○ Concerns over retention of intellectual property
- ○ Labour relations concerns
- ○ Technical or management skills issues
- ○ Age, quality of plant and equipment suppliers

- ○ Plant or process capacity
- ○ Environmental issues
- ○ Other

21. Please provide more details about the most important potential reason to end or reduce sourcing from local suppliers of micro, small and medium size.

22. Which affiliate decides on the procurement of inputs for the affiliate operating in this country? (Please mark only one option)

- ○ Most decisions are made by headquarters, with little to no feedback on local suppliers from the local affiliate
- ○ Most of the decisions are made by headquarters, but with comments on local suppliers from the local affiliate
- ○ Decisions are made jointly by headquarters and the local subsidiary
- ○ Most decisions on inputs are made by the local affiliate, but with comments from headquarters
- ○ Other

23. In general, how do you find local supplies of micro, small and medium size? (Please mark all answers that are true)

- ○ Your agents
- ○ Local government
- ○ Investment promotion agency
- ○ Local suppliers
- ○ Other

24. Please list the names of up to five of the most important micro-, small and medium-sized suppliers and, if possible, provide their addresses, emails and telephone contacts.

Forward linkages

25. How many local buyers does this company have?

26. What is the total number of local buyers of micro, small and medium size?

- ○ Micro (no more than 10 employees)
- ○ Small (more than 10 employees and no more than 50 employees)
- ○ Medium (more than 50 employees)

27. What is the number of long-term buyers of micro size, small size and medium size?

- ○ Micro (no more than 10 employees)
- ○ Small (more than 10 employees and no more than 50 employees)
- ○ Medium (more than 50 employees)

28. Overall, what is the share of sales direct to local buyers of micro, small and medium size? (Please mark only one option)

- ○ 0 per cent
- ○ > 0 per cent and < 10 per cent
- ○ >= 10 per cent and < 50 per cent
- ○ >= 50 per cent and < 75 per cent
- ○ >= 75 per cent and < 100 per cent
- ○ 100 per cent

29. What is the share of micro-, small and medium-sized local buyers of the following type?

- ○ Retailer
- ○ Distributors/Wholesalers
- ○ Manufacturers
- ○ Other

30. If Other, please specify.

31. In general how important are the following criteria when choosing micro-, small and medium-sized buyers in this country? (For each factor, please indicate whether it is: of critical importance; very important; important; useful, but not a decisive factor; without importance)

- ○ Opportunity to use them as intermediates
- ○ The physical distance between the buyer and the company
- ○ Having previous experience with foreign-owned companies
- ○ Being from the same country as the foreign owner
- ○ Being foreign-owned, even if not from the same country as the company
- ○ Environmental sustainability
- ○ Fiscal or tax efficient supply chain reasons
- ○ Provisions in international trade agreements, such as the Agreement Establishing the African Continental Free Trade Area
- ○ Having a manager (or an employee) who speaks the main language of the multinational
- ○ Reliability/inventory management/input traceability/other characteristics of the organization
- ○ Having standardized quality certificates that are relevant for the business
- ○ The size of the buyer
- ○ Linkages to other buyers of larger size
- ○ Reputation
- ○ Closeness to strategic transport infrastructure (airports, ports, motorways, railways, etc.)

32. Does your company provide any particular support or guidance to micro-, small and medium-sized local buyers?

- ○ YES
- ○ NO

33. If YES, please provide some details on the most important way in which your company assists such buyers.

34. Is your support to local buyers of micro, small and medium size expected to be compensated?

- ○ YES
- ○ NO

35. If YES, please provide some details about how such buyers are expected to compensate the company for the support received.

36. Please briefly explain the most important potential reasons for ending sales to local buyers of micro, small and medium size?

37. Which affiliate decides on selling to local buyers of micro, small and medium size based in this country? (Please mark only one option)

- ○ Most decisions are made by headquarters, with little to no feedback on local buyers from the local affiliate
- ○ Most of the decisions are made by headquarters, but with comments on local buyers from the local affiliate
- ○ Decisions are made jointly by headquarters and the local subsidiary
- ○ Most decisions on inputs are made by the local affiliate, but with comments from headquarters
- ○ Other

38. In general, how do you find local buyers of micro, small and medium size? (Please mark all the answers that are true)

- ○ Your agents
- ○ Local government
- ○ Investment promotion agency
- ○ Local buyers
- ○ Other

39. Please list the names of up to five of the most important micro-, small and medium-sized buyers and, if possible, provide their addresses, emails and telephone contacts.

Horizontal linkages

40. What is the number of local competitors of micro size, small size and medium size?

    ○ Micro (no more than 10 employees)

    ○ Small (more than 10 employees and no more than 50 employees)

    ○ Medium (more than 50 employees)

41. Does this company interact with local competitors of micro, small and medium size with the intention of supporting them?

    ○ YES

    ○ NO

42. Which of the following options describe the way(s) in which your company provides support to micro-, small and medium-sized local competitors? (Please mark all answers that are true)

    ○ Transfer of technology and know-how

    ○ Training of the workforce

    ○ Introduction of new products

    ○ Introduction of new production processes

    ○ Other

43. Please provide more details on the most important way in which your company supports micro-, small and medium-sized competitors.

44. Please list the names of up to five important competitors of micro-, small and medium size and, if possible, provide their addresses, emails and telephone contacts.

Linkages to technological partners

45. Does your company have technological partnerships with local companies of micro, small and medium size?

    ○ YES

    ○ NO

46. If YES, which is the most relevant type of technological partnership? (Please mark only one option)

    Joint venture

    Licensing agreement

    Strategic alliance

    Other

47. Please list the names of up to five of the most important technological partners of micro, small and medium size and, if possible, provide their addresses, emails and telephone contacts.

Other spillover forms

48. How many former employees (production workers, technical/supervisory/managerial staff, clerical/administrative staff) of your company have moved to other local companies of micro, small and medium size?

    ○ Production workers

    ○ Managers

    ○ Clerical/administrative staff

49. How many employees of your company have started a new business of micro, small or medium size?

50. Please list the names of up to five companies of micro, small or medium size that were started by former employees and, if possible provide their addresses, emails and telephone contacts.

Contact and reference section

51. Position of the respondent to the questionnaire (Please mark only one option)

    ○ Chairman/managing director

    ○ Company secretary

    ○ Senior manager (except financial)

    ○ Chief accountant, financial manager

    ○ Other

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