

**OBJECTIVES, CHALLENGES,
OPPORTUNITIES AND POTENTIAL
NEXT STEPS**

INDUSTRY-SPECIFIC GLOBAL VALUE CHAIN ANALYSIS (P149454)

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1 Objectives of the Industry-Specific Global Value Chains ESW

The objective of the ESW is to develop and pilot a joint approach to Global Value Chain analysis that is relevant and applicable to developing country contexts. The initiative is funded through the Competitive Industries & Innovation Program (CIIP) and is jointly supported by ‘Competitive Sectors’, ‘Trade Unit’ (both part of Trade & Competitiveness), IFC ‘Manufacturing, Agribusiness and Services’ (part of IFC Investment) and IFC Advisory teams.

1.1 Understanding where and how value is created in Global Value Chains

The developed approach aims to help the World Bank Group and our clients better leverage industry-specific public policy and investment options to catalyze private sector development and foster income growth of the bottom 40 percent of the population.

Rodrik (2013) has observed recurring patterns of structural change, particularly in East Asia and other high-income countries in recent history; economies have moved from agriculture and informal economic activities where value-addition is low; to light manufacturing (e.g. apparel, footwear, simple electronics); to heavy industries (e.g. automotive, machine tools) and finally to services (e.g. finance, insurance) where productivity and value-addition is found to be significantly higher¹.

Policy makers have accordingly followed that linear logic to foster economic development. However, Rodrik (2014)² asserts that globalization and the division of labor, global demand patterns and the growing emphasis on technology and skills have radically altered that linear development path. Furthermore, the geographically scattered nature of value-chain activities, means that the capacity to appropriate value from a specific industry is determined by *which activities* are performed rather than the *type of industry* per se.

Not all value chain activities can act as a stepping stone to the next. Indeed, each value chain activity has different potential to catalyze economic development and productive transformation. Therefore as we move into a new, more uncertain phase of industrialization, it is important to understand *where and how value is created* within the global value chain so as to know which value chain activities to compete for.

The methodology, developed by the European Foundation for Cluster Excellence (in association with the European Commission and IESE Business School), employs a Ten Step³ analytical tool that has been widely used in Europe⁴ and Latin America⁵, but has not been widely tested in the World Bank and IFC projects. The analytical methodology goes beyond quantifying ‘how much value’ is created by each country participating in a GVC, and instead focuses on *how* value is created *and by whom*; potent information for policymakers seeking to promote shared value and prosperity.

1.2 Testing the approach in WBG-relevant cases

As the scope of the activity is purely to test the methodology for its relevance and applicability, rather than to inform ongoing operations or project design, *breadth of study is prioritized over rigor and empirical evidence*. Accordingly, whilst each industry would usually be analysed by a team based in the country of study over a period of six to nine months, in this pilot effort; several industry-country combinations are chosen but each is only afforded one week of in-country study. Similarly, information relies on market intelligence, no firm conclusions are drawn

¹ Rodrik, D. (2013) *Structural Change, Fundamentals, and Growth: An Overview*. Institute for Advanced Study. Available From: <http://j.mp/1HgaMHD>

² Rodrik D. (2014) *New Growth Strategies* Available From: <https://www.theciip.org/sites/ciip/files/documents/Keynote%20-%20Prof%20Dani%20Rodrik.pdf>

³ Duch, “Att mobilisera för regional tillväxt”, Studentlitteratur (Lund 2004), Available from:

⁴ European Foundation for Cluster Excellence- Field Project Methodology - Technical Notes (Barcelona 2013)

⁵ Combining Strategic Analysis and Change Management – Best Practices in Implementation Paper Series- USAID (Washington 2009)

and recommendations are indicative only; illustrating the *type* of insight that could be derived using the approach given appropriate time and resource.

Industries and countries are selected such as to reflect a wide range of client engagements and industry typologies.

- **Light vehicle manufacturing** is a priority industry for IFC and World Bank clients. It offers the potential for substantial investments, job creation and value addition especially through the build-up of Tier-2 and 3 supplier structures. Colombia, Macedonia, Mexico and Vietnam are chosen as appropriate countries for study.
- **Light manufacturing** (e.g. electronics, apparel or footwear) are particularly appealing to lower and lower-middle income countries aiming for export-led industrialization strategies to develop competitiveness in these complex, global value chains. Apparel is selected for study in Bangladesh, Sri Lanka and Turkey.
- **Agribusiness** industries remain economically significant to World Bank Group clients. Demand in African countries is particularly significant and the development of commercial agribusinesses is frequently seen by governments as a stepping stone for increasingly market-based industrialization. The Dairy Industry in Tanzania, Ethiopia and Bangladesh are selected to mirror the Livestock-Mira (L-Mira) project - a non-lending, advisory project fully funded by the Gates Foundation and designed in partnership with the WBGs Livestock Working Group and the Agriculture global practice (GP) working in East Africa. Whilst research under the project is not rigorous enough to directly inform the engagement, L-Mira team members are well placed to determine the relevance and the applicability of the results.

2 Using the approach in the World Bank: Opportunities and Challenges

2.1 Opportunities

The methodology piloted through the CIIP-funded global knowledge piece on Industry-Specific Value Chains has been applied to a number of different operational projects across the World Bank Group. The approach has proved particularly useful in informing loan design and investment decisions through economic and sector work (ESW) and has directly supported program implementation through technical assistance programs (TA) and reimbursable advisory services (RAS).

The analytical approach allows World Bank Group teams to move beyond trade data (and a dependence on product codes in particular) toward policy and investment recommendations that support the development of strategic segments – a function of both product/service and user/market groups - that increase the opportunities for the absorption of higher-value-added activities in client countries.

In addition, at the time of writing, three separate investment loans will help clients (in very different stages of economic development) use the approach to design and implement action plans that will increase sector-level competitiveness. The client will also use the approach to stimulate public-private dialogue in a manner that aims to go beyond dissemination analytical findings, and instead engage and re-engage all value-chain stakeholders throughout the process. Finally, it is intended that actions identified using this approach will help create a framework for intra-government coordination and policy-making.

Various different combinations of lending instruments and non-lending services have been used to transfer capacity to the client and support the program during implementation. However broadly speaking, funding has been made available to provide deep and sustained technical support to a public (or quasi-public) entity over 3-5 years as they learn and perfect the use of these techniques in their work. Formal training is provided through regular seminars and provision is also made for developing institutional structures for coordination and policy-making. Equally important is the identification of provisional funding to implement those actions (be they investment, institutional or policy reforms) that are expected to arise through the analytical process.

2.2 Challenges

It is procedurally very difficult to make financial provision in an investment loan for activities unknown at the time of board approval. Aside from the fact that it makes the monitoring and evaluation of the project particularly complex, committing to implement actions before they have been identified could expose the Bank to certain risks; *what if analysis reveals transformational actions that the Bank is unwilling to fund or actions that would not have been approved had they been clearly stated at project appraisal?* The uncertainty of the actions that might arise from the project may also make the project harder to ‘sell’ internally; in all cases lending resources are finite and a Country Director might therefore be inclined to support the development of projects that have the clearest and most discernible benefit.

There is also a possibility that the analysis will reveal that there is no use for the financial provision at all. Its purpose is to reveal actions that will increase the competitiveness of the sector in a certain locale. It may be that the private sector themselves are the most appropriate agent to implement those actions. Even in the case of policy reform, it is quite possible that there is no discernible financial cost associated with identified recommendations. Whilst this could be considered positive from the client’s fiscal viewpoint, World Bank lending projects that do not disburse are not looked upon favorably.

Sector-level competitiveness are unlikely to see dramatic results quickly. Whilst organization of the public-sector teams and the mobilization of the industry should be evident very quickly, patience will be necessary to allow the sustainable development of long-term strategies that can have transformative results. This patience will be necessary not only in the World Bank Group where project length is typically 4-5yrs, but also on the part of the client who will likely have to face re-election within 5 years and will be anxious to see results from policies implemented during its tenure.

3 Options for Dissemination and Further Research

3.1 Disseminate Findings Arising From Analysis

The pilot studies in the Automotive, Dairy and Apparel GVCs have allowed the team to identify innovative areas for potential investment and policy reforms that may be of interest to the IFC and WB HQ and CMU staff.

Given that detailed feedback was not originally considered to be within the scope project, a series of feedback presentations to investment officers and TTLs could be useful.

3.2 Disseminate the Methodology

The project has demonstrated that it is possible for development practitioners - with very different academic backgrounds, coming from a range of units within the Trade & Competitiveness GP – to integrate the piloted methodology into their knowledge set in a relatively short period (on average six weeks of staff time spread over a six-month period).

The curricula used to support the team’s capacity building could be made available through the Leadership, Learning and Innovation (LLI) as a formal training module for “GVC upgrading specialists”. This module could support TTLs in the design and implementation of projects with a GVC or sector specific component. The module would support ‘learning by doing’, supporting staff working in bank executed TA that include a GVC component, with a series of online classes and face to face sessions.

The following dissemination events might also be considered;

- Three 3-day training workshops for TTLs; one to be held in Washington and two to be held in T&C Global Hubs.

- Three half-day seminars for Program Leads and Investment Officers.

A short, succinct description of the methodology (and the type of recommendations that arise from using it) that could serve as a quick introduction / leader for internal clients would also be useful.

3.3 Potential Areas for Further Research

The following areas of research were not within the scope of this project but could be considered for further research:

- 1) Develop a stringent technical foundation and economic framework for the methodological approach. Explore the relation between higher productivity increases and the shift to more attractive strategic segments or the integration of activities upstream or downstream of the value chain.
- 2) Formally incorporate social and environmental costs into the methodology and utilize expertise outside T&C to address challenges identified. For example, with reference to pilot analyses;
 - Incorporate the environmental cost into the Automotive investigation and rethink the industrial model in function of the urbanisation and mobility. Can Vietnam's future mobility model be based on individual transportation given its population density and infrastructure constraints?
 - Incorporate health and nutritional considerations into the Dairy investigation. What are the implications of supporting dairy development in countries that do not have a milk tradition and cannot be competitive in its production? Is dairy the most appropriate protein to promote in Tanzania or Bangladesh?
- 3) Develop a statistical tool that allows the conversion of value added data directly into the Value Chain flowcharts developed by the project (see **Error! Reference source not found.** and **Error! Reference source not found.**).
 - Develop a template to construct GVC flowcharts easily
 - Identifying the percentage of value added in every activity that is performed.
- 4) Identify the percentage value added in every activity that is performed and capture by target group population (e.g. bottom 40%, women, and minority groups) and use information to inform value-added- and ROI-based M&E indicators.