LEVERAGING GLOBAL VALUE CHAINS FOR JOBS

Social Protection and Jobs Core Courses
October 2019
Where are the jobs in global value chains?
Our session today - objectives

Objectives:

- HAVE AN INITIAL UNDERSTANDING OF HOW TO THINK ABOUT (GLOBAL) VALUE CHAINS AND THEIR POTENTIAL TO GENERATE GOOD JOBS AND INTEGRATE MICROENTERPRISES / SMALLHOLDERS
- HAVE A BROAD UNDERSTANDING OF ANALYTICAL APPROACHES TO GVCs AND POLICY / PROGRAM OPTIONS TO SUPPORT INCLUSIVE VALUE CHAINS

Note:

- This is a huge topic worthy of a course on its own – we will just scratch the surface today
- We will put significant emphasis on global value chains, but will not restrict ourselves to GVCs alone
Outline

• What are value chains and why should we care?
• GVCs: introduction and evidence on jobs
• Techniques for analyzing (G)VCs
• Policy and program options
• Case study on SME linkages: Vietnam
• Discussion / Q&A
What are value chains and why should we care?
What is a value chain?

Definition: A series of activities that take a product or service from its conception to its end use, building value along the way.

TOMATO VALUE CHAIN MAP

- **Source**: Tomato Farm, Fresh Tomato
- **Primary Product**: Dried Tomato, Juice
- **Primary Processing**: Spice, Powder, Paste
- **Secondary Processing**: Paste, Juice, Puée/Ketchup, Sauce, Seed Oil, Canned Tomato
- **Tertiary Processing**: Processed Foods, Pharmaceuticals
- **Trade**: Export, Retail/Wholesale, Hotel/Institutions

Suitable for SMEs and individuals (small scale production)
What can value chains tell us about jobs? (1)

Value chains help us understand better the scale, location, and nature of jobs

Example: Ethiopia leather footwear value chain

- Exports
- Local market
- Imports
- 2nd hand

6 firms →

- FDI
- Local formal
- Informal

Footwear manufacturers

9 firms →

- FDI
- Local formal

Leather processing manufacturers

9 firms →

- Hide and skin collectors

Cattle farmers

- 1000+ firms

~ 10,000 formal jobs (≈ 600,000+ in Vietnam, 80% female)

Source: Brautigam, Tang, and McMillan (2011); Ethiopia Central Statistics Agency

1.6m commercial (just 0.7m dedicated livestock)
13.2m subsistence (2.2m dedicated livestock)
What can value chains tell us about jobs? (2)

Value chains help us understand where the specific constraints are that restrict jobs impact.

Example: Ethiopia leather footwear value chain

- Exports
- Local market

Footwear manufacturers

- Leather processing manufacturers

Hide and skin collectors

Cattle farmers

- Imports
- 2nd hand

Transport and trade facilitation
Productivity
Management and technical skills
Quality

Quality
Value chains offer opportunities for large-scale, direct job creation

Both Vietnam and Bangladesh have created around a half million new jobs in the manufacturing sector each year since 2000, largely through integration in global value chains.
But often the issue is more about earnings than jobs (esp in agriculture)

*Source: Presentation at the artisans of the world days November 2005 – solidarity among peoples – Economic alternatives – Carrefour – Max Havelaar... in EuropAid (2011)*
Why value chains for jobs and inclusive development?

1. Identifying opportunities for job creation (*more* jobs)
2. Empowering small firms/farms capture more value (*better* jobs)
3. Integrating small firms / farms with established sources of demand (*inclusive* jobs)

- **Specificity**: Interventions to unlock competitiveness are often industry (VC) specific
- **Mobilization potential**: VCs offer a platform to build coalitions of mutual interest, increasing potential for successful implementation

Source: [https://nextgenafricanfarmers.files.wordpress.com/2013/06/agri-value-chain.gif](https://nextgenafricanfarmers.files.wordpress.com/2013/06/agri-value-chain.gif)
GVCs: introduction and evidence on jobs
What do we mean by a global value chain?

TOMATO VALUE CHAIN MAP

Source | Primary Product | Primary Processing | Secondary Processing | Tertiary Processing | Trade

Tomato Farm → Fresh Tomato → Dried Tomato

Spain | Morocco | Italy

Italy | Spain

Spice → Powder → Paste → Processed Foods

France | Netherlands | UK

Processed Foods → Pure/Ketchup → Sauce → Seed Oil

France | Italy | Germany

Processed Foods → Pharmaceutical

UK | France | Italy | Spain | Netherlands | Germany

Hotel/Institutions | Retail/Wholesale | Export

Suitable for SMEs and individuals (small scale production)
What do we mean by a global value chain?
Different types of GVC participation

Forward participation
- Exporting to export
  - Raw materials
  - Parts and components

Forward and backward participation
- Exports
  - Semi-finished good

Backward participation
- Importing to export
  - Finished good
  - Exports for consumption

This matters, because the nature of GVC participation determines the scale and quality of jobs that are likely to be created.
All countries participate in GVCs—but in different ways.
GVC intensity also varies significantly across sectors.
GVCs have contributed to the declining labor share within countries, but...

Labor share by country income group, 1995-2011

Factors contributing to decline in labor share, 1995-2011

-2.2 Total

-0.7 World demand

-0.9 Domestic within-industry factors

-0.6 Global value chains

Percentage points

-2.5 -2.0 -1.5 -1.0 -0.5 0.0
... the growth in output from GVC participation has meant more jobs overall. But...

Case example: automobile GVC

Jobs per US$100 of exports

Total jobs (‘000)

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2011</th>
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<tr>
<td>BRA</td>
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<td>TUR</td>
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<tr>
<td>ZAF</td>
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</tbody>
</table>

Direct VA: Green
Indirect VA: Orange

0 2,000 4,000 6,000 8,000

0 2,000 4,000 6,000 8,000
... this job creation has not been spread evenly. Higher-skilled workers have generally benefited most

Change in share of workers by occupational skill category in European regions (1998-2014)

Correlation between demand for skilled labor and backward GVC integration by sector

Source: Ridao-Cano and Bodewig (2018)

Source: Farole, Hollweg, and Winkler (2018)
GVCs favor women’s employment...

GVC firms hire more women than non-GVC firms across the world
... but don’t break glass ceilings

Women are more likely to be production workers but less likely to own or manage GVC firms, as compared to non-GVC firms

Production vs non-production workers

Owners and managers
When we think about jobs in GVCs, the key concept is ‘domestic value added’

$100$ car industry production
Domestic vs. foreign

- **FOREIGN**
  - Value-Added
    - In various industries
- **DOMESTIC**
  - Value-Added
    - In re-imported intermediates
    - In sectors supplying auto sector
    - Directly to the auto sector

- Direct employment
- Employment in domestic supply chains -- esp SMEs


FROM A POLICY PERSPECTIVE, HOWEVER, DOMESTIC AND FOREIGN VALUE ADDED MUST BE TREATED AS COMPLEMENTS RATHER THAN SUBSTITUTES (WE WILL DISCUSS LATER)
Domestic supply chain development is a critical part of the job creation opportunity in GVCs

Decomposition of growth of domestic value added in exports in Bulgaria (%), 1995-2008

- Direct Industry Value Added: 62.2%
- Indirect Domestic Value Added: 37.8%
- Reimported Domestic Value Added: 0.1%


- This requires support SME and microenterprise integration in value chains
The majority of these jobs will come in domestic in services sectors

- Transport, distribution, and commercial services explains a large share of share input costs in GVCs
- Many of the higher value added tasks are services
- Increased competition and performance in services helps the productivity of sectors that use services as inputs
GVCs are also contributing to large scale employment in agriculture, both on and off the farm.

The big policy and program challenge is to ensure the gains from expanded agri GVCs are also enjoyed by small-scale farmers through improved earnings.
Techniques for analyzing (G)VCs
What do we mean by ‘value chain analysis’?

“We need to do a value chain analysis”
What this means depends a bit on where your coming from:

- **Trade perspective**
  Understanding value-added in exports and the imported components of exports – link to Global Value Chains

- **Trade facilitation perspective**
  Understanding how physical movement of goods shapes outcomes - link to Supply Chain Analysis

- **Agricultural perspective**
  Understanding opportunities and constraints for upgrading and exporting – link to Crop-Specific Value Chain studies

- **Poverty and social protection perspective**
  Understanding opportunities and constraints for household / smallholder/microenterprise links and upgrading – link to Pro-poor and Sustainable Livelihoods approaches

- **Industry perspective**
  Understanding opportunities and constraints at each stage of the chain – link to Sector, Cluster, VC Competitiveness analysis

These approaches have some differences but can be complementary.
Many different approaches to the analysis

**QUANTITATIVE**
- Mapping labor
- Mapping value, cost and time
- Productivity analysis
- Secondary data analysis (LFS, HIES, etc)

**QUALITATIVE**
- Stakeholder mapping / analysis
- Diaries
- Political economy analysis
- Gender analysis

**SURVEYS**
- Stakeholder mapping / analysis
- Secondary data analysis (LFS, HIES, etc)

**FOCUS GROUPS**
- Social / behavioral analysis
- Political economy analysis

**KEY INFORMANT INTERVIEWS**
- Stakeholder mapping / analysis
- Political economy analysis

**PARTICIPATORY / ACTION RESEARCH**
- Gender analysis

**WIDE VARIETY OF TOOLKITS / GUIDES AVAILABLE—LINKED TO SPECIFIC APPROACHES:**
- Sustainable Livelihoods (SL)
- Making Markets Work for the Poor (M4P)
- Agricultural Commodities and Livestock (IFAD)
- VC Development for Decent Work (ILO)
- Global Value Chains (GVC)
We’ll briefly touch on three analytical approaches

1. Macro-level quantitative: LACEX
2. Micro-level quantitative: Jobs in Value Chains Surveys
3. Qualitative: Strategic segmentation and SME linkages assessment
The Labor Content of Exports (LACEX) Database

- Computes the domestic value of labor / total wages and the number of jobs embodied in a country’s domestic production and exports
- Uses input-output data from GTAP and employment data from the ILO
- Available for a large sample of developed and developing countries (120), across sectors (57) and intermittent years (1995-2011); being updated to 2015


Source: Cali et al. (2016)
Application: Exports are increasingly important for labor outcomes in Vietnam, supporting 40% of wages and jobs.

Total labor content of exports as a share of total labor content, 1989-2012

Direct and indirect job content of exports across GVC sectors, 2012

Note: Considering labor employed directly to produce exports, as well as labor employed indirectly to produce domestic inputs to exports.
Application: What are the distributional impacts of trade on labor in South Africa?

- In South Africa, exports boomed but employment didn’t
- Use LACEX database to measure how trade at the sectoral level has supported jobs and wages in South Africa between 2001 and 2011
- South Africa’s labor content of exports is increasingly supported by the minerals sector
- Increasing importance of indirect jobs and wages in GVC trade has distributional implications through skills demand

Direct and indirect labor content of exports
Jobs Group’s approach: surveys + qualitative

**PHASE**

1. **SCOPING AND PRELIMINARY ANALYSIS**
   - 3-4 weeks
   - Initial counterpart and stakeholders consultation
   - VC selection / mobilization
   - Identification of potential firms to survey
   - Database analysis
   - Generic VC (global) mapping
   - Review existing sector info
   - Initial sector screening

2. **FIELD RESEARCH**
   - 6-16 weeks
   - FIRM SURVEYS (50-100++ sample, context-dependent)
   - FIRM INTERVIEWS AND FOCUS GROUPS (20-50+ subsample)
   - Field research missions (optional)

3. **ANALYSIS / CONCLUSIONS**
   - 3-4 weeks
   - Analysis and recommendations
   - Concluding mission

**ACTIVITY**

- Kick-off mission
- Concluding mission
- FIRM INTERVIEWS AND FOCUS GROUPS

**TOOL**

- RFP / TOR template
  - Terms of reference for hiring external experts to lead the VC analysis
- Screening template
  - Criteria and data sources for screening and selecting value chains
- Survey instruments
  - General and sector-based survey templates
- Interview guidelines
  - Guidelines for semi-structured interviews
- Completion checklist
  - List of what should be understood by the end of the analytical process

**IMPLEMENTATION PLANNING**

- Analysis and recommendations
- Concluding mission
Jobs in Value Chains Survey

QUESTIONNAIRES:
1. AGRICULTURE
2. MANUFACTURING /SERVICES

DATA GENERATION:
- Detailed employment demographics by node
- Share of females, youth & foreign workers
- Recruitment preferences (skills & experience)
- Obstacles to growth – incl labor-linked

TOPICS
- Characteristics of the establishment
- Market for products
  - Selling channels & relations with buyers
- Productivity
  - Decisions for investments in capital & labor
- Identifying main inputs
  - Opportunities & barriers to local sourcing
- Structure of the workforce
  - Skills profile, wage levels & strategies for development

Three key challenges of value chain surveys

**NOTE THAT VALUE CHAIN ANALYSIS REQUIRES IN-DEPTH ‘ON-THE-GROUND’ RESEARCH AND IS TYPICALLY OUTSOURCED TO TECHNICAL EXPERTS. FEW GOVERNMENT AGENCIES DO THIS RESEARCH THEMSELVES (ALTHOUGH EXAMPLES FROM WORLD BANK WORK)**

1. **Mapping and representation:** In data poor environment and with large informal sectors, identifying actors along the chain is a challenge → very difficult to know if you are getting a representative view.

2. **Time and cost:** Value chain assessments are expensive and take time (all the more so, given #1).

3. **Generalization and sustainability:** The value chain approach requires getting very specific (agri v horticulture v table grapes); and dynamics (and especially costs / productivity) can change quickly.
Sampling – why do we care about it?

Whether or not you are surveying, representativeness matters...

THE MICE SQUAD

I just read your column in today's paper. How can you say that the number of functionally illiterate in our society is greatly exaggerated?!

I did a survey. And of all the people who completed and mailed back the questionnaire...

... not one was illiterate.
Application: Potatoes in North Lebanon

Jobs demographics

<table>
<thead>
<tr>
<th>Node share of total VC jobs</th>
<th>Share of total jobs</th>
<th>Share of FTEs</th>
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<tbody>
<tr>
<td></td>
<td>Permanent</td>
<td>Seasonal</td>
</tr>
<tr>
<td>Input suppliers</td>
<td>4%</td>
<td>41%</td>
</tr>
<tr>
<td>Farmers</td>
<td>73%</td>
<td>16%</td>
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<tr>
<td>Traders</td>
<td>18%</td>
<td>31%</td>
</tr>
<tr>
<td>Processors</td>
<td>5%</td>
<td>53%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Women</th>
<th>Low skill</th>
<th>Seasonal</th>
<th>Youth</th>
<th>Low skill</th>
<th>Seasonal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High skill</td>
<td>permanent</td>
<td></td>
<td>High skill</td>
<td>permanent</td>
<td>Seasonal</td>
</tr>
<tr>
<td>Input suppliers</td>
<td>27%</td>
<td>0%</td>
<td>48%</td>
<td>13%</td>
<td>92%</td>
<td>52%</td>
</tr>
<tr>
<td>Farmers</td>
<td>0%</td>
<td>31%</td>
<td>62%</td>
<td>11%</td>
<td>14%</td>
<td>34%</td>
</tr>
<tr>
<td>Traders</td>
<td>4%</td>
<td>5%</td>
<td>13%</td>
<td>0%</td>
<td>81%</td>
<td>27%</td>
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<tr>
<td>Processors</td>
<td>0%</td>
<td>41%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Job creation scenarios

Projected job creation through attracting large-scale processing plant

- Processing: high skill permanent - 159
- Processing: low skill permanent - 641
- Processing: temporary - 696
- Traders: permanent - 47
- Traders: temporary - 115
- Farm: permanent - 991
- Farm: temporary - 5,045
- Input suppliers: permanent - 342
- Input suppliers: temporary - 498
Qualitative approaches – value chain mapping

Market actors - core value chain

List of firms / contact details

List of firms / contact details

List of firms / contact details

List of firms / contact details

Market actors - support players, institutions, govt.

List of firms / contact details

List of firms / contact details

List of firms / contact details

List of firms / contact details
# Qualitative approaches – interviews and focus groups

- **Secondary research** (qualitative and quantitative) typically up front, before surveys
- **Interviews and focus groups** provide qualitative insights unavailable through surveys

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<thead>
<tr>
<th></th>
<th><strong>Key Informant Interviews</strong></th>
<th><strong>Focus Groups</strong></th>
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<tbody>
<tr>
<td><strong># of participants</strong></td>
<td>• Normally 1; may be a small group (up to 3)</td>
<td>• Ideally 5-12</td>
</tr>
<tr>
<td><strong>Advantages</strong></td>
<td>• Provides very specific knowledge / expertise</td>
<td>• Stimulates broad discussion</td>
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<td></td>
<td>• Relatively easy to target and control outcomes</td>
<td>• Provides opportunity to understand different perspectives on the same issue</td>
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<td></td>
<td>• Can address sensitive issues not appropriate for group discussion</td>
<td>• Potential for generating new ideas</td>
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<td></td>
<td></td>
<td>• Potential for testing reactions to ideas</td>
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<td></td>
<td></td>
<td>• Potential to mobilize actors</td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td>• Issues may be very specific to the firm or individual</td>
<td>• Requires significant planning and potentially cost</td>
</tr>
<tr>
<td>and challenges</td>
<td>• Difficult to test veracity and assess whether opinion is broadly held</td>
<td>• Requires skilled facilitator</td>
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<td></td>
<td>• Less likely to generate new ideas</td>
<td>• Risk of discussion veering off-course or being hijacked by specific issues / individuals</td>
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<td></td>
<td>• Risk of ‘groupthink’</td>
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<tr>
<td><strong>Important considerations</strong></td>
<td>• Identifying the most relevant key informants</td>
<td>• Managing the demographics of the participants to ensure the most effective mix</td>
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<tr>
<td></td>
<td>• Ensuring senior-level interviewer for high-level informants</td>
<td>• Ensuring all participants are involved (‘voice’)</td>
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<tr>
<td></td>
<td>• Building trust with the interviewee</td>
<td>• Managing (loosely) the conversation</td>
</tr>
<tr>
<td></td>
<td>• Ensuring an open and transparent conversation, but controlling the flow</td>
<td>• Managing expectations of participants</td>
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Qualitative approaches – public-private dialogue

Diagram:
- **Dialogue**: VC Unknown → VC Known
  - **Data Gathering & Analysis**: 3-5 Months
  - **Value Chain Study**: 6 Months
  - **Public & Dissemination**: 1-2 Months
  - **VC Program Development & Implementation**

**Map Stakeholders**
- Donors, development partners, NGOs, Academics, Ministries, business Chambers and etc.

**Country Value Chain Focus Known**
- **Yes**: Map VC relevant stakeholders
  - Undertake exhaustive stakeholder mapping within the VC to identify key influencers in ecosystem, and their current positions, opinions and motivations

**No**: Design Dialogue

**Data Collection & Analysis**
- VC Methodology
- Preliminary data/survey analysis
- Identify stakeholder priorities
- Jobs data
- SWOT analysis

**VC(s) Identified**
- Present VC Methodology and data/survey analysis, validate data and potential for jobs, consensus on data findings, share good practice case studies, SWOT analysis, identify opportunities and barriers to strengthening VC, consensus on recommendations

**Publish/Disseminate VC Report**
- Design appropriate dialogue structures and establish working groups to find solutions to barriers/challenges and implement recommendations
Policy and program options
Attraction of GVCs and creating good jobs depends on structural conditions... but policy matters

<table>
<thead>
<tr>
<th>Poor endowments?</th>
<th>To Limited Manufacturing</th>
<th>To advanced manufacturing and services</th>
<th>To innovative activities</th>
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<tbody>
<tr>
<td>DfI: Investment policy and business climate</td>
<td>Skill development: technical and managerial</td>
<td>Access to finance and technology</td>
<td>Education, training, and skill increasingly important</td>
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<tr>
<td>Competitive labor costs: exchange rates, labor regulations</td>
<td></td>
<td>Is to finance and technology</td>
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<tr>
<td>Remote location?</td>
<td>Trade facilitation and transport liberalization</td>
<td>Advanced logistics services: Multimodal, digitally-enabled transport infrastructure investment; liberalized transport services environment</td>
<td></td>
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<tr>
<td>Trade facilitation complemented by modernization of transport and distribution services</td>
<td>Basic ICT connectivity: Infrastructure investment</td>
<td>Advanced ICT services: Infrastructure, competitive markets (liberalized ICT services environment)</td>
<td></td>
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<tr>
<td>Small market size?</td>
<td>Access to inputs: Liberalized access to key inputs (selective tariffs / NTM reform)</td>
<td>Access to inputs: Broad-based liberalization (including goods and services)</td>
<td>Market access: Preferential trade agreements (including investment and services)</td>
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<td>Market access: Preferential trade agreements</td>
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<td>Weak institutions?</td>
<td>Governance: political stability</td>
<td>Governance: policy predictability</td>
<td>Deepen trade cooperation and commitments</td>
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<tr>
<td>Innovation: basic standards regime</td>
<td>Legal: contract enforcement</td>
<td>Legal: contract enforcement + IPR protection</td>
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<tr>
<td>Innovation: innovation ecosystem (R&amp;D policy, industry-academia links, etc)</td>
<td>Creating an environment for continuous innovation</td>
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A policy agenda for GVC integration and upgrading

**Endowments**
- **Commodities to limited manufacturing**
  - **FOREIGN DIRECT INVESTMENT**: supportive investment policy and favorable business climate
  - **COMPETITIVE UNIT LABOR COSTS**: favorable exchange rates, adequate labor regulation

**Geography**
- **Limited manufacturing to advanced manufacturing and services**
  - **TECHNICAL/MANAGERIAL SKILLS**: vocational training; tertiary ed.; openness to foreign skills
  - **TRADE INFRASTRUCTURE**: investments in ports and transport infrastructure; customs reform; openness in transport services

**Market size**
- **Advanced manufacturing and services to innovative activities**
  - **ADVANCED LOGISTICS SERVICES**: multimodal, digitally enabled transport infrastructure investment; liberalized transport services
  - **ADVANCED ICT SERVICES**: infrastructure; fully competitive markets

**Institutions**
- **ACCESS TO FINANCE AND TECHNOLOGY**
  - **ADVANCED SKILLS**: education and training in innovation and R&D; openness to foreign skills
  - **BASIC ICT CONNECTIVITY**: infrastructure investment; liberalized ICT services environment

- **ACCESS TO INPUTS**
  - **ACCESS TO INPUTS**: liberalized access to key inputs (tariffs/NTM/services reform)
  - **ACCESS TO INPUTS**: broad-based liberalization (goods and services), including trade, investment, and domestic regulatory policy

- **MARKET ACCESS**
  - **MARKET ACCESS**: trade agreements
  - **MARKET ACCESS AND GOVERNANCE**: deep trade agreements (including investment and services)

- **GOVERNANCE**
  - **political stability**
  - **policy predictability**

- **LEGAL**
  - **contract enforcement**
  - **IPR protection**

- **STANDARDS**
  - **basic compliance regime**

- **INNOVATION**
  - **innovation ecosystem (R&D policy, industry-academia links, etc.)**
GVC policy should support not just job creation but also worker well-being and mobility

- Policies and programs targeting working conditions are also important (safety, working hours, wages, rights to organize, etc.)
At the program level, initiatives like Better Work have had success in improving working conditions... and profits

Examples from Vietnam

Noncompliance rates by evaluation cycle

Relationship between verbal abuse of staff and firm profits
The biggest opportunities for inclusive jobs in GVCs comes through SME supply chain linkages

Growth of local suppliers and FDI in the Bangladesh garment sector

- Number of local intermediate input suppliers
- Number of FDI firms in garment industry

Source: Kee (2014) in WDR 2020

Barriers faced by firms entering GVCs

Source: Cusolito, Safadi, and Taglioni (2016).

SMEs also need: Development of managerial capacity / skills; workforce skills upgrading; innovation capacity; technology adoption
Policies to support services sector development is particularly important, as this is where we find most GVC-linked jobs.

- Services account for an increasingly large share of value added in exports, particularly embedded in goods.
- Services sectors are where the greatest opportunities exist for SME linkages in GVCs.
- But... services markets remain highly regulated / restricted around the world.
Program-level approach to inclusive value chains (mostly through linkages)

SOLUTIONS FOR DELIVERING INCLUSIVE VALUE CHAINS TEND TO BE:
1. VALUE-CHAIN SPECIFIC (BUT MAY BE POOLED UNDER A BROADER VC PROGRAM)
2. DELIVERED OVER SEVERAL YEARS
3. DELIVERED BY NGO OR SECTOR / VC-SPECIFIC ORGANIZATIONS

Common approaches include (not mutually exclusive):

- Vertical market linkages (general / Agriculture)
- Support for producer organizations to address coordination failures – incl. Productive Alliances model (Agriculture)
- Supplier Development / Supply Chain linkages (Mining and Manufacturing)

NOTE THAT ALL THESE TAKE A ‘MARKET SYSTEMS’ APPROACH, WHICH IS INCREASINGLY STANDARD. THIS APPROACH CONSIDERS THE ROLES AND INCENTIVES OF ALL ACTORS WITHIN A MARKET SYSTEM AND ATTEMPTS TO FIND SOLUTIONS WITH A CLEAR MARKET ORIENTATION
What’s the problem? Pervasive market and government failures...

- **Information failures**: prices, varieties, standards (e.g. technical and phytosanitary)
- **Information asymmetries**: implications for pricing power
- **Missing markets**: technical services, access to financial services (credit, insurance)
- **Missing / burdensome regulations**
- **Incomplete public infrastructure and capacity (institutions)**
- **Negative spillovers inherent from VC links**: e.g. implications of input supply weaknesses on downstream incentives to invest

Source: Manalili
... and serious coordination and capacity challenges

Coordination challenges stem from fragmented production among smallholders / microenterprises... especially in combination with concentration in other parts of the VC

- **INPUT SUPPLY**
  - Negotiating price
  - Getting supply chain credits

- **MARKET TIMING**
  - Coordinating when to bring output onto the market (cashflow vs. price); ability to respond to supply and demand fluctuations

- **PRICING**
  - Negotiating price
  - Getting contracts

- **TRANSPORT / STORAGE**
  - Negotiating price and availability

**SMALLHOLDERS AND MICROENTERPRISES ALSO TEND TO FACE SIGNIFICANT CAPACITY CHALLENGES**

- Technical capacity in production
- Financial capacity (to invest, to handle volatility / shocks)
- Knowledge and capacity to negotiate and manage business contracts
- Understanding / comfort with norms and business practices in formal markets
- Impact of social norms, especially on women
Vertical market linkages in agriculture: a general approach to link microenterprises to lead firms

**Spot Markets and Multiple Middlemen**

- **Forward Contracts**
  - Agreed contract before production (reduces risk and increases access to credit)

- **Regular Subcontracting**
  - Preferred suppliers with forward contracts (additionally reduces search costs)

- **Outgrower Schemes**
  - Contract + technical support and flexibility to sell to other buyers

- **Contract Farming**
  - Producer works for one buyer / product – inputs and technology supplied

These relationships often fail to develop due to information failures, inherent risks, and capability gaps.
The Productive Alliance Model focuses on addressing coordination failures among microenterprises / smallholders

This approach combines coordination of microenterprises into producer organizations (e.g. cooperatives) with vertical market linkages

A productive alliance is based on a commercial agreement between a producer organization and a commercial off-taker

3 key actors:
- Group of smallholders (organized)
- One or more buyers
- Public Sector

-- connected through a ‘business proposition / plan” that describes the capital and services needs of the producers and proposes improvements that would allow them to upgrade their production capacities and skills to strengthen their linkage with the market.
Supplier Development / linkages programs

- Tend to focus more on SMEs than microenterprises and the most excluded
- Tend to as much (or more) focused on manufacturing and services than agriculture
- Often associated with FDI and especially in natural resources (extractive) and large-scale infrastructure sectors / projects
- More likely to be initiated and funded by private sector, but typically involve some organization and support from government

**KEY ELEMENTS:**

- **SUPPLIER MATCHING**
  - Information and brokering to link potential suppliers with buyers

- **UPGRADING**
  - Supply-side support for capability building
  - Technology enhancement
  - Certification
Linkages—examples and lessons

Examples

- Guinea Linkages Program
- Chile World Class Supplier Development Program
- Malaysia Industrial Linkages Program
- Czech Pilot Supplier Development Program

SOME LESSONS FROM IMPLEMENTATION EXPERIENCE

- Local supply chain development / local content approaches in large projects / investments is probably not the place for integrating the most excluded producers.
- Supplier fragmentation a barrier outside of agribusiness as well (even more so).
- Buyers tend not to have an incentive to invest in training and upgrading for non-core activities.
- Supply side absorptive capacity often very limited – major support required not just for technical upgrading but basic business / financial skills.
- Access to finance is critical.
- Support for diversification of markets (buyers) important for sustainability.
Integrating VC programs with broader policy reforms

VALUE CHAIN PROGRAMS ARE VERTICAL SOLUTIONS BUT TYPICALLY REQUIRE COMPLEMENTARY SUPPORT AT THE HORIZONTAL LEVEL TO ADDRESS CONSTRAINTS THAT HOLD BACK INCLUSION OF SMALL PRODUCERS

- Business environment and financial inclusion
- Trade policy
- Agricultural technology and extension
- Quality regime
- Infrastructure / connectivity
- Skills
Case study on SME Linkages: Vietnam
Vietnam in GVCs

- *Vietnam at a Crossroads: Engaging in the Next Generation of Global Value Chains* identifies policies and targeted interventions that will drive development by leveraging GVC participation

  - First, it highlights Vietnam’s current engagement in GVCs
  - Second, it looks at potential engagement in GVCs while also taking into account major trade policy shifts and rapid technological advances
  - Third, it identifies strategic policy tools that can help developing countries achieve economic prosperity in the context of compressed development

- Synthesizes a large amount of background work undertaken for Vietnam 2035
Challenges for FDI-SME linkages

- Domestic private sector weak
- FDI sector with limited spill-overs
- Low productivity and lack of innovation
- Local supporting industries (SI) behind peers in the region (e.g. Malaysia, Thailand)
- Imperative to strength domestic private sector via supporting industries
Lack of competitive local suppliers

More foreign-owned firms hold an internationally-recognized quality certification (e.g., ISO 9001) than linked or non-linked domestic firms.

- Lack of competitive local suppliers means that foreign firms will look elsewhere and link with other firms which can provide consistent (in terms of quality, quantity, and price) and timely inputs needed to finalize production.

- However, qualitative interviews with firms in Vietnam suggest that there remains keen interest on the part of lead firms and first-tier suppliers in the automotive and electronic sectors, for example, to access globally-competitive local suppliers.
Lack of access to finance

Perceived as a top business obstacle by firms in Vietnam (21.8% in Vietnam versus 11.5% in EAP)

More Vietnamese firms complaining about access to finance than firms from peer countries.

Vietnam rate lower than Malaysia and Thailand in terms of firms with access to credit/loan or overdraft facility. However, there is no large difference between linked and non-linked domestic firms in Vietnam.

Sectoral focus: In the ICT sector, lack of access to reliable risk capital is an identified key constraint that hinder start-up and scale-up.
Findings: key market failures in linkage programs (3)

Lack of skilled workforce

Linked domestic firms in Vietnam have higher proportions of skilled workers and provide more formal trainings.

- Lack of skills cuts across sectors, although there are particular skillsets demanded for by particular sectors:
  - Apparel sector: technology (automated machines), marketing, branding, fashion/design, and soft business skills related to sourcing and relationship management
  - Textiles sector: chemical-related skills such as dyeing, finishing, synthetic production and processing
  - ICT sector: foreign language, management, and technical skills

- Reasons explaining the lack of skilled workforce: (i) governance structure of foreign lead firms (where OEMs perform high value-added activities overseas, leading to a lack of ‘learning-by-doing’ for domestic firms); and (ii) local education system not being able to keep up with the demands of a fast-paced business environment.
Key findings of a review of SME programs in Vietnam

- Need for an alignment of SME support programs to address demand-side and supply-side market failures

Lack of competitive local suppliers
- Supporting Industry Development Program 2011-2020
- Master plan on supporting industry development to 2020, Vision to 2030
- National Product Development Program
- ‘Enhancing the productivity and quality of products of SMEs’ program (Standards)

Lack of access to finance
- Credit guarantees through VDB
- Credit guarantee fund for SMEs (provincial level)
- SME Development Fund*

Lack of skilled workforce
- Training-specific program: Human resource development for SMEs program
- Training activities within programs
Operationalizing the supporting industries agenda

- Based on the diagnostic, a “Roadmap for Implementing the Supporting Industries Program and Strengthening SME Competitiveness” was proposed.

- The proposal focuses on four pillars:

  **Institutional and governance environment for SI policy**

  **Pillar 1:**
  - Establishment of SI and Competitiveness Inter-ministerial Committee with key stakeholders – public and private (lead firms and suppliers in GVCs);
  - (ii) Improve business regulatory environment;
  - (iii) SI agency for managing the SDP

  **Establishing a Supplier Development program for developing SI in priority sectors**

  **Pillar 2:** Connecting MNEs & local firms

  **Pillar 3:** Setting up a SDP to support domestic firms with:
  - (i) consulting/advisory services;
  - (ii) upgrading equipment.

  **Addressing investment climate constraints to strengthen innovation**

  **Pillar 4:** Facilitate and promote demand-driven skills training, managerial services, quality/standards as well as improvements in R&D eco-system through:
  - (i) use of behavioural incentives;
  - (ii) promoting alternative training and consulting modalities, development of R&D clusters through public-private partnerships with universities.
Discussion / Q&A