Our session today - objectives

Objectives:

• HAVE AN INITIAL UNDERSTANDING OF HOW TO THINK ABOUT VALUE CHAINS AND THEIR POTENTIAL TO INTEGRATE MICROENTERPRISES / SMALLHOLDERS

• HAVE A BROAD UNDERSTANDING OF POLICY OPTIONS AND SPECIFIC PROGRAM APPROACHES 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 focus on inclusivity in value chains but will go beyond the informal sector

• We will put significant emphasis on global value chains
Outline

- What are Value Chains and Why Should We Care?
- Analyzing Value Chains for Inclusivity
- Upgrading in Global Value Chains
- Case Study: Vietnam
- Discussion / Q&A / Hand-on Exercise
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

**Primary Product**
- Fresh Tomato

**Primary Processing**
- Dried Tomato
- Powder
- Paste
- Purée/Ketchup
- Sauce
- Seed Oil

**Secondary Processing**
- Spice
- Paste
- Purée/Ketchup
- Sauce
- Seed Oil

**Tertiary Processing**
- Processed Foods
- Canned Tomato
- Pharmaceutical
- Hotel/Institutions
- Retail/Wholesale
- Export

**Trade**
- Suitable for SMEs and individuals (small scale production)
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

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

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

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

These approaches have some differences but can be complementary
Where are the jobs in value chains? Where is the inclusion?

Inclusion and informality

- Poor and bottom 40%
- Women
- Youth
- Vulnerable Groups
- Rural Areas

When dealing with groups that are typically excluded, we are typically also dealing with informality.

- Informal, non-wage employment is the norm in most developing countries.
- Value chains target inclusion through connecting informal and formal actors (more on this later...)

Source: Jobs WDR 2013
Why value chains for 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)

- **Job creation leverage**: VCs offer link between competitiveness and jobs → competitive lead firms drive job creation and productivity growth through the chain
- **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
The issue is more about earnings than jobs (esp in agri)

Job creation effects
- MORE -

Job quality effects
(productivity, earnings, skills)
- BETTER -

Jobs access effects
- INCLUSIVE -

Source: Presentation at the artisans of the world days November 2005 — solidarity among peoples — Economic alternatives — Carrefour — Max Havelaar… in EuropAid (2011)
What’s the problem? Pervasive market and government failures...

A simple VC/ market system

- **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 v 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
Analyzing Value Chains for Inclusivity
Three key challenges of value chain analysis

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.

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)
Many different approaches to the analysis

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<thead>
<tr>
<th>QUANTITATIVE</th>
<th>FOCUS GROUPS</th>
<th>SURVEYS</th>
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<tr>
<td>Mapping labor</td>
<td>Stakeholder mapping / analysis</td>
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<td>Mapping value, cost and time</td>
<td>Diaries</td>
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<td>Productivity analysis</td>
<td>Political economy analysis</td>
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<td>Secondary data analysis (LFS, HIES, etc)</td>
<td>Gender analysis</td>
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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)
Job’s approach: surveys + qualitative

**SCOPING AND PRELIMINARY ANALYSIS**

- Database analysis
- Generic VC (global) mapping
- Review existing sector info
- Initial sector screening

3-4 weeks

**FIELD RESEARCH**

- Initial counterpart and stakeholders consultation
- VC selection / mobilization
- Identification of potential firms to survey
- FIRM SURVEYS (50-100++ sample, context-dependent)
- FIRM INTERVIEWS AND FOCUS GROUPS (20-50+ subsample)

6-16 weeks

**ANALYSIS / CONCLUSIONS**

- Analysis and recommendations

3-4 weeks

**CONSULTATION / PUBLIC-PRIVATE DIALOGUE**

**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**

Kick-off mission

Field research missions (optional)

Concluding mission
Approaches to inclusive value chains

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)

• Support for producer organizations to address coordination failures – incl. Productive Alliances model

• Supplier Development / Supply Chain linkages

• Building institutional capacity for value chain development

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
Upgrading in Global Value Chains: services, jobs, skills, SMEs
The three unbundlings:
200 years of globalization in 3 slides*

Trade costs fall in 1820 driving ‘unbundling’ of production and consumption (Globalisation 1.0).

* Drawing heavily on Richard Baldwin (2016)
Impact of first unbundling: 170 years of divergence

Production clusters locally while markets expand globally

Innovation and production remain concentrated in developed world due to high communications costs

G7 share of world GDP
Second unbundling: knowledge offshoring (since 1990)

ICT revolution and falling communications costs drives offshoring and unbundling of factories in developed world

→ GVCs enable knowledge dissemination along with jobs in MNC production throughout developing world (especially China)
Growth of domestic value added embodied in exports

Focus on values and growth rates:

- Looking at shares of domestic value added embodied in gross exports only can be misleading, as smaller shares may simply reflect longer value chains due to increased fragmentation of production.

Doesn’t necessarily need to be linked to GVC integration measures:

- Focus on the domestic value added portion that is exported which implies GVC integration on the selling side

Growth of Domestic Value Added Embodied in Gross Exports (CAGR), 1995-2008

**Agriculture**
- BGR: 9.0%
- CHN: 8.5%
- DEU: 3.5%
- EU10: 8.3%
- JPN: 5.1%
- POL: 4.6%
- PRT: 10.3%
- ROU: 13.6%
- TUR: 5.4%
- USA: 4.0%

**Food & Beverages**
- BGR: 2.7%
- CHN: 11.3%
- DEU: 7.7%
- EU10: 11.0%
- JPN: 4.3%
- POL: 14.2%
- PRT: 8.9%
- ROU: 11.7%
- TUR: 8.5%
- USA: 3.7%
Through Which Channels Can the growth of Domestic Value Added in Exports Be Increased?

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%

Data: OECD-WTO TiVA.
THE ROLE OF SERVICES: VERTICAL SPECIALIZATION AND THE “SMILING CURVE” OF VALUE ADDED

- Many of the high value segments are services

Vertical specialization and the “smiling” curve of value added for a $600 iPhone 4

Services are key if the focus is on upgrading in GVCs

- Transport / logistics / connectivity plays a key role in helping firms reach markets, and explains a sizable share of their input cost bill.
- Many of the higher value added tasks are services.
- Increase competition and performance in services helps the productivity of sectors that use services as inputs.
A labor perspective is central to country engagements on trade competitiveness and GVCs

- Export growth can be a powerful avenue to increase employment and earnings

- How exports support domestic labor depends on several factors:
  - volume of exports
  - labor-intensity of export sectors
  - domestic linkages of exporting firms to input-supplying firms

- Trade shocks impact labor markets, and frictions in labor markets impact economy-wide adjustment

- A country’s labor force also impacts its export competitiveness, notably skills

- Recent engagements on trade and labor markets focus on these aspects
The Labor Content of Exports (LACEX) Database

- Systematic data on the contribution of exports to employment and labor earnings across countries and sectors is not readily available.

- LACEX fills this gap!

- 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).

**Evolution of the total LVAX share in exports in developing countries**

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
Evidence of a global shortage of people with the right competences and skills to meet the needs of the logistics industry

Respondents indicating "low" or "very low" availability of qualified personnel in the respective employee groups, by region

Source: Based on a 2016 World Bank / KLU study on logistics skills
Logistics competences, skills and training: A new World Bank toolkit

- Developed by the World Bank and Kühne Logistics University in 2016
- Provides a quick overview of logistics skills requirements and skills base of a particular country via targeted questionnaires
- Includes guidance on measures to address skills gaps
- Informs World Bank technical assistance and lending projects
Do skill constraints and workforce gaps in Vietnam’s domestic private sector deter upgrading in the apparel value chain?

Apparel Value Chain

- **Inputs**
  - Natural & Synthetic Fibers
  - Trim (Buttons, Zippers, Elastic, etc.)
  - Equipment & Machinery

- **Components (Textiles)**
  - Yarn Production
  - Fabric Production
  - Knit
  - Woven

- **Final Products**
  - Apparel Production (Cut & Sew)
  - Knit
  - Woven

- **Distribution, Sourcing & Sales**
  - Intermediaries
  - Lead Firms
    - Brand Manufacturers
    - Brand Marketers
    - Retailers

**Increasing Economic Value-Added**
- Production: 20-30%
- Logistics & Sourcing: 5-10%
- Design, Branding, & Retail: 60-75%

Red indicates highest value-added activities + control/power over the chain
Percentages represent relative shares of apparel retail selling price attributed to value-adding activities
Many of the skilled occupations have limited presence in Vietnam, limiting domestic companies to upgrade their production or establish linkages to foreign companies and international markets.

- Vietnam is in the manufacturing/assembly-related stages of the apparel value chain
- Skilled occupations have limited presence
- This limits domestic companies to upgrade their production or establish linkages to foreign companies and international markets

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<tr>
<th>Position</th>
<th>Typical Education</th>
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<tbody>
<tr>
<td>Manufacturing / Assembly / Production</td>
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<tr>
<td>Automated Fabric Spreading/Cutting; Patternmaking</td>
<td>Technical education, apparel; BA/BS Apparel Design</td>
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<tr>
<td>Full Package / Sourcing / Logistics / Sales</td>
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<tr>
<td>Sampling</td>
<td>BS</td>
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<tr>
<td>Sourcing: Supply Chain Management</td>
<td>BS, finance/management</td>
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<tr>
<td>Merchandizer</td>
<td>BS</td>
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<tr>
<td>Export Manager</td>
<td>BS, Business</td>
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<tr>
<td>Design</td>
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<tr>
<td>Assistant Fashion Designer</td>
<td>BA/BS, Apparel Design</td>
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<tr>
<td>Senior Designer</td>
<td>BS/MS, Apparel Design</td>
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<tr>
<td>Branding/Product Development</td>
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<tr>
<td>Branding &amp; Marketing Analyst</td>
<td>BS/MS, Business</td>
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<tr>
<td>Product Development</td>
<td>BS/MS, Business or Apparel</td>
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<tr>
<td>Administrative</td>
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<tr>
<td>Industrial Engineers</td>
<td>BS, Engineering</td>
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<tr>
<td>Sales/Account Management</td>
<td>BS, Business</td>
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How do we support small- and medium-sized enterprises to enter GVCs?

- GVCs offer potential for LDC firms to participate in high value-added activities, but regions where LDCs are concentrated have less GVC participation

- SMEs need: **Managerial** and **workforce** skills, **Innovation** capacity, **Technology adoption**, Investment in **knowledge**
Case Study: Vietnam
CASE STUDY OF VIETNAM

• **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
FRAGMENTATION OF PRODUCTION INTO GLOBAL VALUE CHAINS HAS CREATED OPPORTUNITIES AND CHALLENGES FOR VIETNAM

Opportunities

- Large scale foreign investment is driving employment growth for basic assembly jobs
- Short run opportunities for local supplier development with local content requirements
- Longer run opportunities to upgrade in the value chain by drawing on the vast resources available in the global supply-base

Challenges

- Space for local firms has narrowed in manufacturing sectors because major lead firms (Samsung, Ford, Toyota) in GVCs generally use the same set of “global suppliers” everywhere
- High value functions (innovation, design, core components) stay outside of Vietnam
- Vietnam becomes stuck in a “low value added trap”, failing to develop high value functions or innovation capabilities
- Longer run risks as lower cost competitors draw foreign investment away from Vietnam
KEY TAKEAWAYS

1. Vietnam has successfully integrated into a number of GVCs, which has created jobs, propelled economic growth, and reduced poverty. However, its specialization has been in low value-added, end-production activities with weak domestic linkages.

2. Vietnam is at a crossroads. It can continue to grow as an export platform for GVCs and to specialize in low value-added assembly functions, or it can leverage the current wave of growth to diversify and move up the chain into higher value added functions.

3. Such an ambitious endeavor requires a solid package of horizontal reforms and vertical initiatives in specific sectors. Actions are not to be implemented in isolation, but require a comprehensive agenda that cuts across many dimensions.

4. A country’s ‘connectivity’ or ability to connect to global markets for goods, services, capital and people is a key driver of its international competitiveness and GVC participation. Exporters suffer from low logistics performance and high transport costs, with a role for government.

5. Domestic linkages from foreign, exporting firms to domestic, input-supply firms are weak. Short run opportunities for local supplier development with local content requirements exist, but policies need to be dramatically improved.
National characteristics and absorptive capacity matter for the functioning of transmission channels of GVC participation to the domestic economy.
BROAD-BASED REFORMS ARE NECESSARY TO ENSURE ABSOLUTE AND RELATIVE PROGRESS

Entering GVCs: Which policies help (i) create world-class GVC links and (ii) a world-class climate for foreign tangible and intangible assets?

Expanding and strengthening GVC participation: Which policies help strengthen (i) existing GVC-local economy links and (ii) absorptive capacity of local actors?

Turning GVC participation into sustainable development: Which policies help create a world-class workforce? How can climate-smart policies be implemented?

Source: Taglioni and Winkler (2015)
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
Scope of analysis

3 areas of analysis:

- Enterprise productivity and investment climate analysis
- Factors influencing FDI-SME linkages
- Review of SME and linkage programs
Conceptual framework of analysis: What market failures deter the development of FDI-SME linkages?

**Goal**
Enhance MNE linkages to increase DVA, employment, local firm productivity & market access

**Investor (MNE)**
- Technology, skills, finance, standards

**VN supporting industries**
- goods & services

**Policy feedback**

**Demand-side constraints:**
- Lack of local suppliers
- Lack of competitive local suppliers (quality, quantity and price)
- Lack of information on domestic suppliers & capacity
- Distortive LCR policies or incentives

**Supply-side constraints:**
- Technology & skills gaps
- Lack of targeted financial and tech support for upgrading
- Lack of information on MNE sourcing strategies and standards

**Public sector constraints:**
- Insufficient policy alignment
- Coordination failures
- Lack of supporting services

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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:

  **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

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

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

  **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
Questions for Discussion

- In what ways are value chains relevant for your country?
- Do you see opportunities for supporting inclusivity through value chain participation or upgrading?
- What are the challenges?
- Is the World Bank actively engaged with the Government to address these constraints?
- What additional information can we provide to support dialogue between the World Bank and the Government on inclusive value chains?