



What Policy Space for Global Value Chains Programs in Latin America?

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Justification and plan of the talk

1. Why important

- Less space for individual firms to design, produce, market on their own.
- Less space for isolated policies

2. **WHAT** and **HOW** GVC Policies (do not question WHY)

- Sometimes policies overlap with familiar policy questions on PSD, but GVCs require some different and complementary policy thinking.

3. Plan of the presentation

1. Logic of GVC policies
2. The 'receiving' context matters (innovation systems)
3. Typology to classify real projects
4. Some examples from IDB

What are GVC programs?

What do we mean by GVC programs?

- Integrating into GVCs
- Capturing value within GVCs
- International policy discussion related to GVCs (trade and investment policies, international standards, exchanges rates, ...)

“.... value chain development approaches have evolved over time and nowadays frequently need to be more complex interventions...” (Stamm and von Drachenfels, 2011)

Integrating into GVCs

Attraction

- Free international flows of goods, services, capital, knowledge, people, and policies related to them (business environment, framework, ...)
- Protectionism may hurt exports that in turn need crucial imports
- Investment barriers and FDI attraction (investment, trade, competition, tax, human resources, infrastructures, corporate and public governance, ...)

Ease GVC Functioning

- Reduction in trade barriers (NTB, standards, processing zones,..).
- Logistics and infrastructures (transport, ICT,...), but also soft infrastructures (facilitating policies and procedures)

Supply Local Capabilities to Interact with GVCs

- Supply capacity of domestic firms (business linkages, skills development, ...)



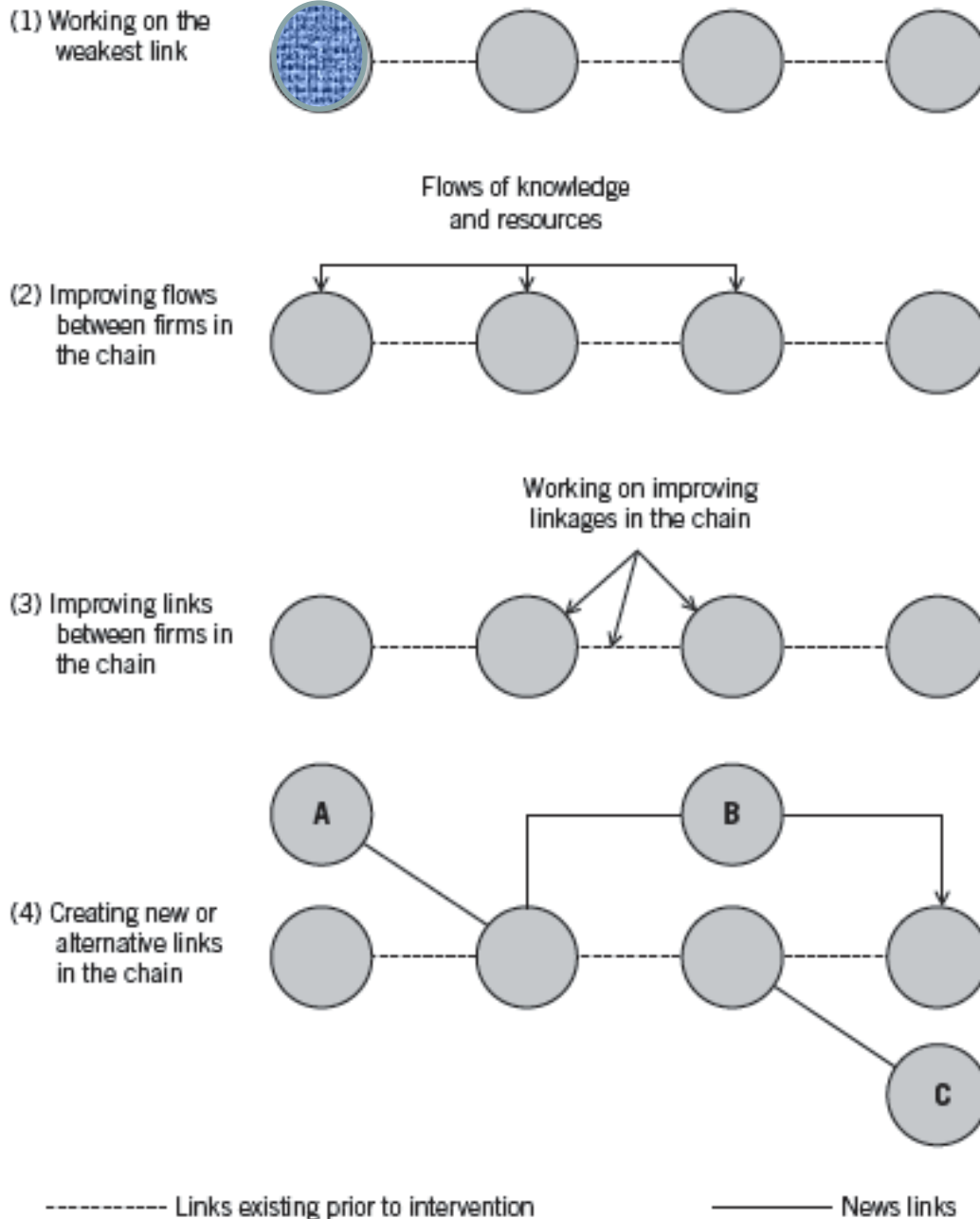
Capturing Value within GVCs

- Rents are generated and not equally distributed along the VC. For **emerging countries** challenge is to **capture more value and economic benefits** from their activities within GVCs
- The value captured by home countries reflects their capacity to attract innovation and development of intangible assets.
 - Policies to attract MNCs
 - Policies to help firms grow to more important positions within GVCs via innovation and internationalization policies
- “Moving up (and moving down) the value chain” to higher value activities.
- Risk of **lock up** in low value manufacturing activities (as GVC integration may occur without developing capabilities in design and logistics).
- **“Modularity trap”**: despite labor productivity increases, firms operate in low value niches and activities with little chance of upgrading.
- Upgrading requires **better access to international markets** and also **better technological capabilities** and intangible assets.



Typology of Objectives for Value Chain Interventions

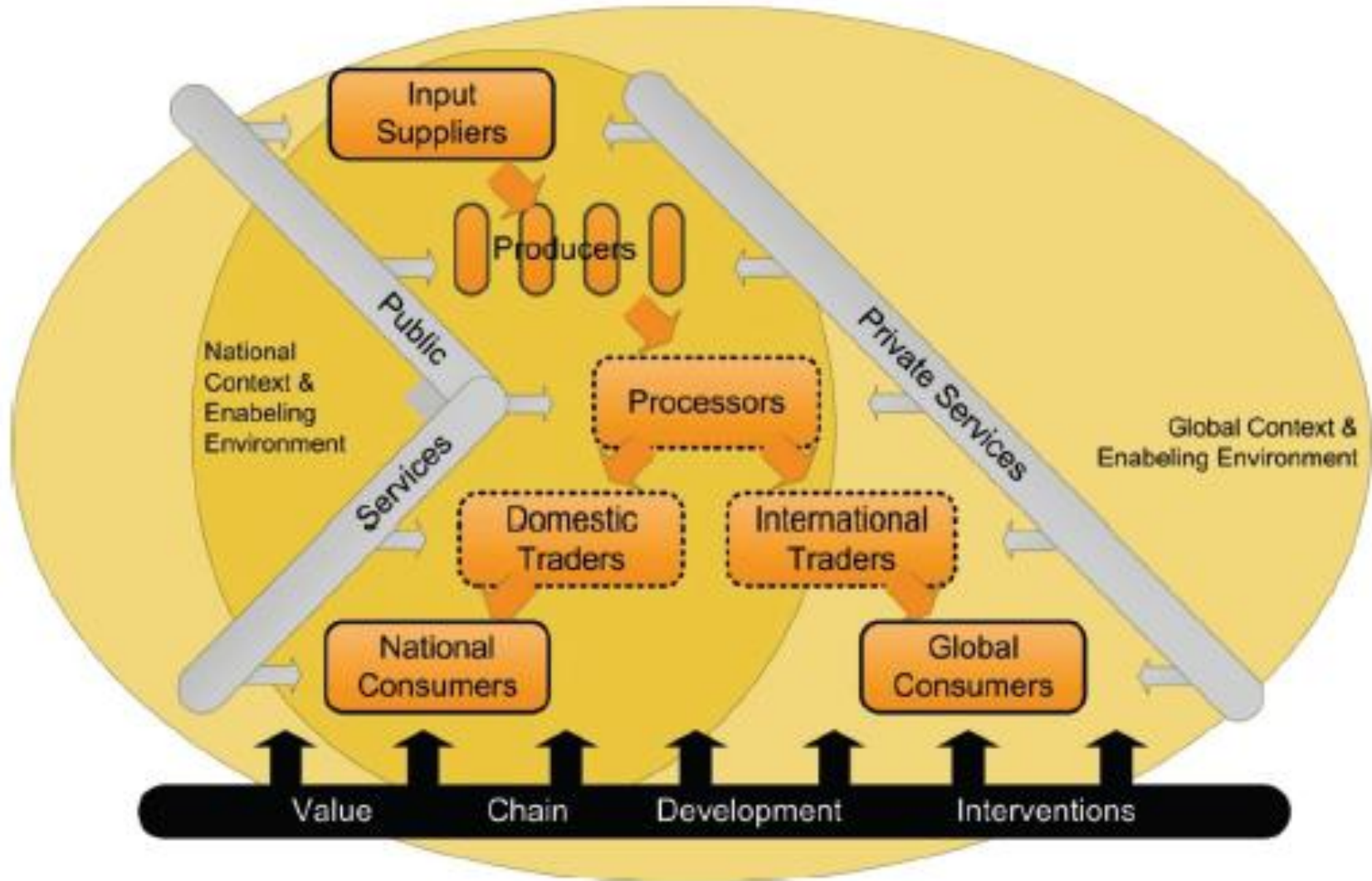
(Humphrey, Navas-Aleman, 2010)



- working with lead firms often regarded as most promising way for firms' upgrading in developing countries
- access to strategic knowledge (technology and markets)
- horizontal linkages
- alternative links to reduce dependency and raise bargaining power

Systemic Approaches to Value Chain Development

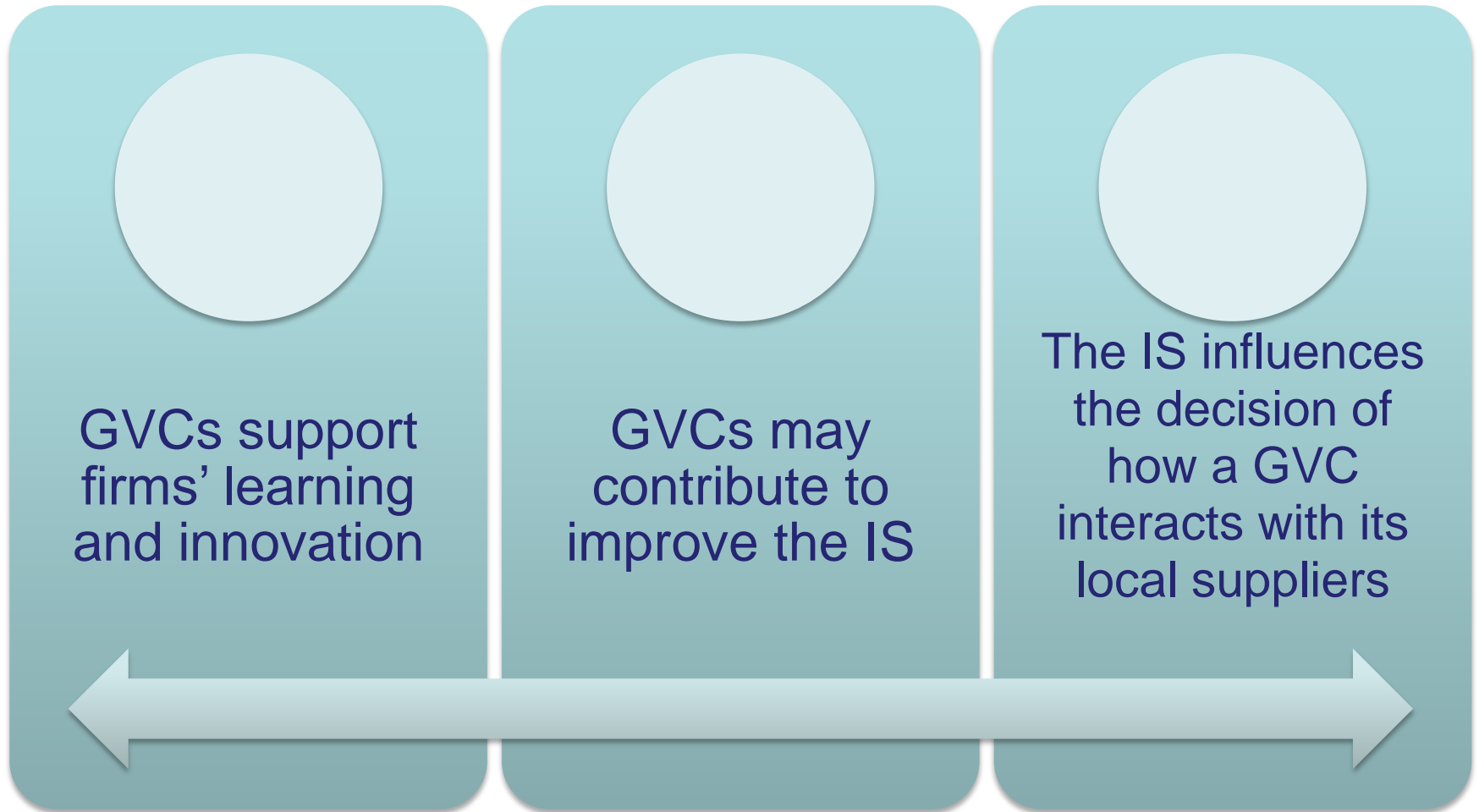
(Hartwich and Kormawa, UNIDO 2009)



Innovation Systems and GVCs

- **Global Value Chain framework:**
 - Focus on the role of **leading firms and inter-firm networks** in firms upgrading;
 - Limitation: little attention to the understanding of the upgrading itself. How is knowledge accessed? How do firms in GVC learn and innovate?
- **Innovation Systems** framework:
 - Focus on how **interactions** among enterprises, institutions, research bodies and policy making agencies contribute to **learning and innovation** within firms;
 - Limitation: little attention to external linkages in the generation and diffusion of knowledge and innovation;
- IS and GVC: so far essentially two separate strands of literature: need to bridge this gap and explore the implications for policies and programs (Pietrobelli and Rabellotti, 2011)

GVCs and IS: an endogenous relationship



The role of learning within GVCs

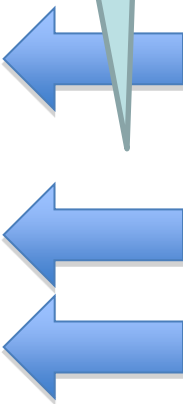
- **How do different learning mechanisms operate in different types of chains?**
 - In which chains are lead firms promoting learning only through **increased pressure** ('competition effect)?
 - In which ones are lead firms supporting the innovation process through **deliberate knowledge transfer** and **direct involvement in the learning** and innovation process?
 - In which type of chains is learning resulting from **unintended knowledge spillovers**?
- **How do different innovation systems affect the determinants of GVC governance and through this, the opportunity for enterprise learning and upgrading?**

Learning mechanisms within GVCs need to be considered for policy purposes.

They vary according to the form of GVC governance

Role of IS is stronger here

Networks



Governance Type	Complexity of transactions	Codification of transactions	Competence of suppliers	Learning mechanisms within GVC
Market	Low	High	High	<ul style="list-style-type: none"> Knowledge spillovers Imitation
Modular	High	High	High	<ul style="list-style-type: none"> Learning through pressure to accomplish international standards. Transfer of knowledge embodied in standards, codes, technical definitions
Relational	High	Low	High	<ul style="list-style-type: none"> Mutual learning from face-to-face interactions
Captive	High	High	Low	<ul style="list-style-type: none"> Learning via deliberate knowledge transfer from lead firms confined to a narrow range of tasks – e.g. simple assembly.
Hierarchy	High	Low	Low	<ul style="list-style-type: none"> Imitation Turnover of skilled managers and workers Training by foreign leader/owner Knowledge spillovers

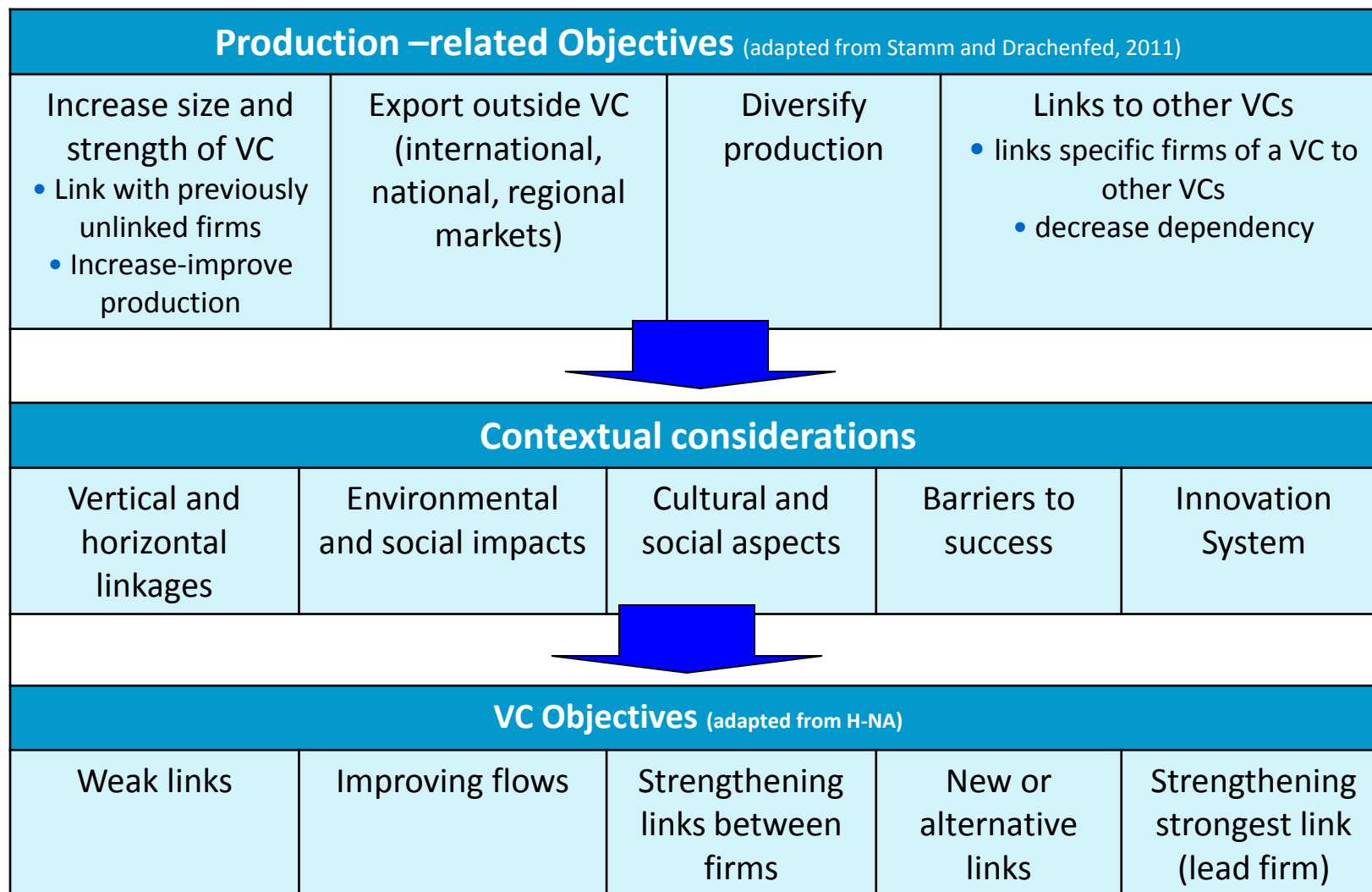
Source: adapted from Gereffi *et al.*, 2005

The Typology of Value Chains:

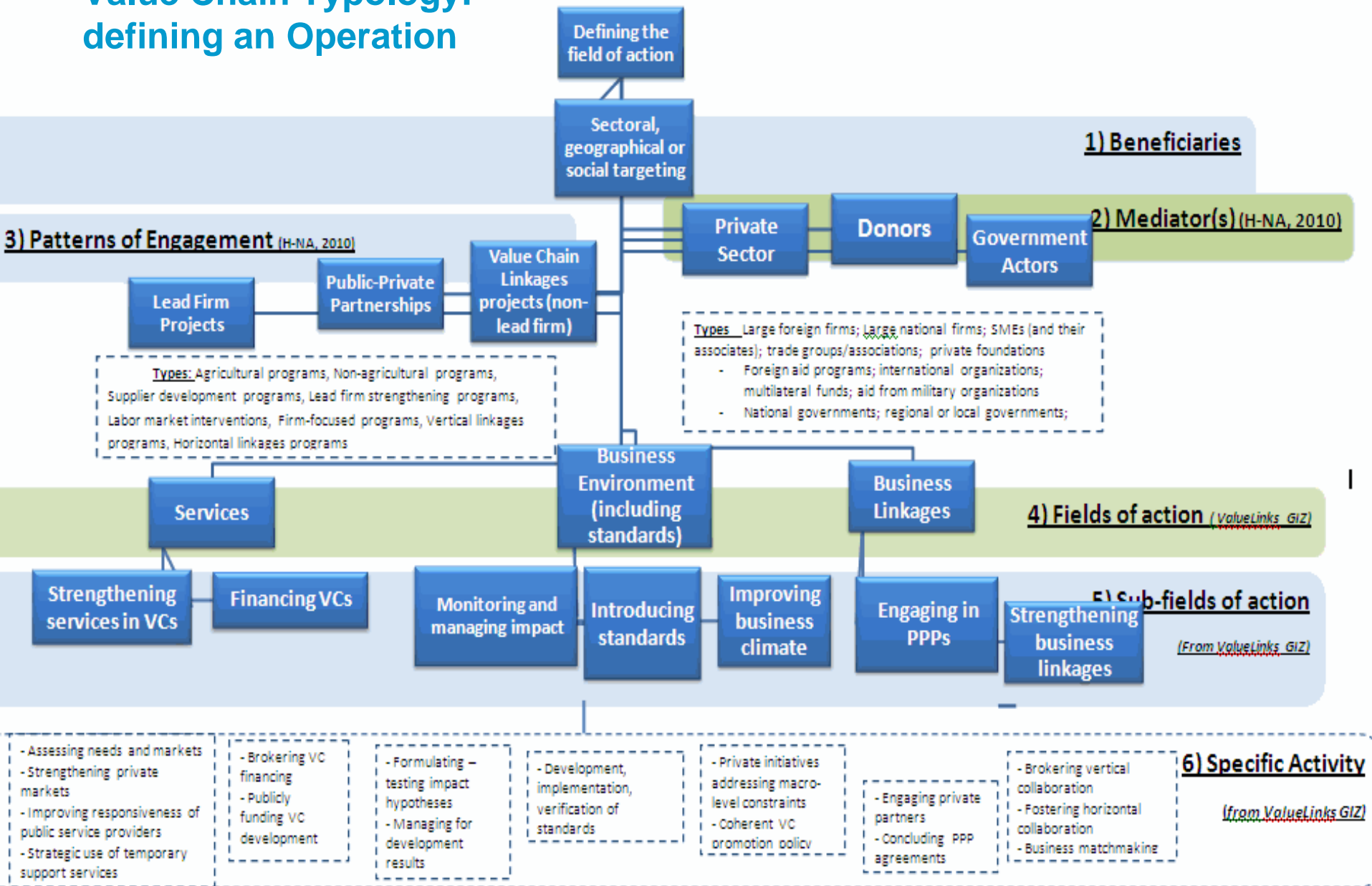
Developing a functional framework from the literature and the field



basic questions we need to answer at a conceptual level



Value Chain Typology: defining an Operation



Applying typology to real projects

- **132 IDB value chain (in a broad sense) operations since 2000,**
 - 15 main thematic areas
 - \$813 million in IDB financing

Costs by funding type	# of projects	IDB financing	total cost	
L	14	\$ 723,600,000	\$ 926,160,000	<i>Loan</i>
M	71	\$ 73,367,776	\$ 136,744,165	<i>MIF (TA)</i>
S	10	\$ 8,650,000	\$ 18,688,550	<i>Small and SEP projects</i>
T	21	\$ 6,576,963	\$ 8,109,363	<i>Technical Cooperation</i>
X	5	\$ 879,336	\$ 879,336	<i>Special operations</i>
		\$ 813,074,075	\$ 1,090,581,414	TOTALS



Applying typology to real projects

- BO-M1016 Corporate Social Responsibility in the Coffee Production Chain
 - \$143,000 USD, Zone of the Yungas of the department of La Paz
 - Improve the competitiveness of the coffee value chains in 4 municipalities by commercializing \$2 million USD of trade in the European market and improving and increasing administrative capacities

Framework	Goal/Objective (what)	Specifically (how)
Production Objective(s)	Export outside VC	Increase revenue by 20% in 9 OECAs; \$2 million in trade to European markets; 7 or 9 OECAs exporting and 2 selling in national market; trade mission to Europe
Contextual Consideration(s)	Barriers to success	Climatic problems that affect production; competition with Coca production
VC Objective(s)	Strengthening links between firms	SEE BELOW
Beneficiary(ies)	Coffee Producers in Bolivia	9 OECAs in the Yungas Zone
Mediator(s)	Private Sector, Donors, Public Sector	MIF, local governments of Yungas Zone
Pattern(s) of Engagement	Value Chain linkages (non-lead firm)	Agricultural; firm-focused
Field(s) of Action	Business Environment (standards); Business linkages	<ul style="list-style-type: none"> ▪ Developing brands for producers; ▪ Procurement of legal documentation; ▪ Development of 3 telecenters for information seekers; ▪ Trained 4 members of each OECA to run the telecenters
Subfield	Introducing Standards; Strengthening business linkages	



Applying typology to real projects

BO-M1016 Corporate Social Responsibility in the Coffee Production Chain

Production Objectives

Increase size and strength of VC

- Link with previously unlinked firms
- Increase production

Export outside VC

- International, National, Regional

Diversify production/products

Link to other VCs

- Link specific firms of a VC to other VCs
- Decrease dependency

Contextual Considerations

Vertical and Horizontal linkages

Environmental and social impacts

Cultural and social aspects

Barriers to success

Innovation Systems

VC Objectives

Weak links

Improving flows

Strengthening links between firms

New or alternate links

Strengthening strongest link (lead firm)



Applying typology to real projects

BO-M1016 Corporate Social Responsibility in the Coffee Production Chain

Value Chain Typology – Defining an Operation or Action

Defining the field of action

Sectoral, geographical or social targeting

Private Sector

Donors

Government Actors

1) Mediator(s)

2) Patterns of Engagement

Lead Firm Projects

Public-Private Partnerships

Value Chain Linkages projects (non-lead firm)

Types

- Agricultural programs
- Non-agricultural programs
- Supplier development programs
- Lead firm strengthening programs
- Labor market interventions
- Firm-focused programs
- Vertical linkages programs
- Horizontal linkages programs

Types

- Large foreign firms; Large national firms; SMEs (and their associates); trade groups/associations; private foundations
- Foreign aid programs; international organizations; multilateral funds; aid from military organizations
- National governments; regional or local governments;

Services

Business Environment (including standards)

Business Linkages

3) Fields of action

(Primary categories)

Strengthening services in VCs

Financing VCs

Monitoring and managing impact

Introducing standards

Improving business climate

Engaging in PPPs

Strengthening business linkages

4) Sub-fields of action

- Assessing needs and markets
- Strengthening private markets
- Improving responsiveness of public service providers
- Strategic use of temporary support services

- Brokering VC financing
- Publicly funding VC development

- Formulating hypotheses
- Verifying impact hypotheses
- Managing for development results

- Development of standards
- Implementation of standards
- Verification of standards (capacity)

- Private initiatives addressing macro-level constraints
- Coherent VC promotion policy

- Engaging private partners
- Concluding PPP agreements

- Brokering vertical collaboration
- Fostering horizontal collaboration
- Business matchmaking

5) Specific Activity (Example types given)

Applying typology to real projects

■ EC-L1078 Industrias Lacteas Toni S.A.

- \$8 million USD, Ecuador, Improve quality and productivity of 300 small dairy producers and strengthen the distribution channel for Toni products

Framework	Goal/Objective (what)	Specifically (how)
Production Objective(s)	Increase size and strength of VC	Increase production;
Contextual Consideration(s)	Barriers to success; Vertical and horizontal linkages	Equipment/systems; processes; standards
VC Objective(s)	<u>Strengthening strongest link;</u> strengthening weak links	SEE BELOW
Beneficiary(ies)	Dairy Value Chain in Ecuador	Toni S.A. – dairy company, Tiendas del Barrio, Ecuador
Mediator(s)	Donor	International organization - IDB
Pattern(s) of Engagement	Lead Firm Project	Agricultural program; supplier development program; vertical linkage program
Field(s) of Action	Services; Business Environment	<ul style="list-style-type: none"> • Improve quality and productivity of 300 dairy producer suppliers to lead firm; • Investments in pasteurization processes and irrigation systems (\$4.8 m USD); • Strengthen distribution channel for lead firm; • Investments in physical improvements and managerial capacity for 80,000 small firms (\$3.2 m USD)
Subfield	Financing VCs; Improving business climate; Introducing standards (set & compliance)	



Applying typology to real projects

BR-M1039 Sustainable Development of Wood & Furniture Supply Chain in the Amazon Region

- \$2.1 million USD, States of Para and Amazonas, Brazil
- Strengthen public-private collaboration to generate conditions that promote competitiveness and sustainable business development, identify and disseminate technological solutions to small enterprises

Framework	Goal/Objective (what)	Specifically (how)
Production Objective(s)	Increase size and strength of VC	Improve efficiency; increase production
Contextual Consideration(s)	Environmental and social impacts; cultural and social impacts	Issues related to preservation of Amazon region; limiting commercial production
VC Objective(s)	<u>Weak links</u> ; Strengthening links between firms	SEE BELOW
Beneficiary(ies)	Wood/furniture producers in Amazon	SMEs in Amazonas and Para, Brazil
Mediator(s)	Donors; Government Actors	MIF; States of Amazonas and Para, Brazil
Pattern(s) of Engagement	Public-Private Partnership	Non-agricultural; <u>firm focused</u> ; horizontal linkages
Field(s) of Action	Services; Business linkages; Business Environment	<ul style="list-style-type: none"> • Market analysis - ID available technical and economic resources • Technological services – specialized wood centers; coordination initiative among firms • Public-private initiatives – developing quality standards, certification & control systems, and technical capacities • Human resources – forming local trade associations; training curriculums • Development and conduct of a M&E system for production;
Subfield	Strengthening services in VCs; strengthening business linkages; Monitoring and managing impact	



Applying typology to real projects

RG-T1670 –Financial Inclusion for productivity and access to markets in Valle de Canete, Peru

- reduce the economic, productive and social vulnerabilities through production chain development with provision of technical assistance and credit (*Caja Rural*)

Framework	Goal/Objective (what)	Specifically (how)
Production Objective(s)	Strengthen VC diversify production	Integrate producers with an international chain; decrease vulnerability
Contextual Consideration	Vertical and horizontal linkages	Credit Technical assistance
VC Objective(s)	New or alternative links	SEE BELOW
Beneficiary(ies)	Valle de Canete, Peru	50 asparagus producers in the Valle de Canete, Peru
Mediator(s)	Donors;	IDB (through MAP)
Pattern(s) of Engagement	Lead firm with linkages	Agricultural program; firm-focused;
Field(s) of Action	Business environment (including standards); Services	<ul style="list-style-type: none"> ▪ Develop production capacities according to international standards (TA) ▪ Promote commercial relations between small producers and large firms
Subfield	Introducing <u>standards</u> ; <u>Financing VCs</u>	<ul style="list-style-type: none"> ▪ Promote access to the financial system ▪ Amplify production horizons for small businesses through credit



Applying typology to real projects

- **Kosovo Private Enterprise Program (all encompassing PSD program)**
 - **USAID 2008-2012**, Tourism, recycling, fabricated metals and auto parts, decorative stone, non-wood forest products, and agriculture value chains
 - Aims to stimulate the private sector development of Kosovo's economy by increasing exports, improving the competitive positioning of Kosovo's products in domestic markets, attracting more FDI

Framework	Goal/Objective (what)	Specifically (how)
Production Objective(s)	ALL – increase size and strength of VC; export outside VC; diversify production/products; link to other VCs	Increase exports; improve internal market position; attract FDI
Contextual Consideration(s)	Barriers to success; vertical and horizontal linkages	Instability in macroeconomic and business contexts
VC Objective(s)	Weak links; improving flows; strengthening links between firms; new or alternate links	SEE BELOW
Beneficiary(ies)	Kosovo	
Mediator(s)	Donor; Government Actor	USAID; Government of Kosovo
Pattern(s) of Engagement	Public-Private Partnerships; Value Chain Linkages	Agricultural; Non-agricultural; firm-focused; vertical & horizontal linkages
Field(s) of Action	All- services; business environment; business linkages	<ul style="list-style-type: none"> ▪ Developed 11 satellite collection and cooling facilities for non-wood product sectors ▪ Developed new market channels for non-wood products (6 m. EUR in sales) ▪ Developed new cheese varieties ▪ Trial plots for new pepper and watermelon types ▪ Funded establishment of several vegetable processing centers ▪ Helped firms obtain HACCP certification ▪ Facilitated sales contacts ▪ Identified potential investments and investors
Subfield	Strengthen services in VCs; Financing VCs; Improving business climate; Strengthening business linkages	

Conclusions

- ❑ There is some policy space, but
- ❑ Need of a clearer, focused, strategic approach
- ❑ Need to standardize measures, language, tools
- ❑ Challenges: GVC policies complex given variety of actors involved, differing access to input factors and information, of regulatory contexts, ...
- ❑ Context matters both for integrating into GVCs and for capturing value, notably the systems conducive to innovation and learning



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