UN CEB Cluster on Trade & Productive Capacity: Multi-Partner Trust Fund

Trade and Value Chain Development

Thematic note

(*Version as of 19 July 2016*)

1. Trade-led Value Chain Development contributes to the SGDs

Value Chains (Global, Regional and Local) have become a dominant feature of economic, trade and investment landscape in developing, emerging, and developed economies. As per UNCTAD estimate the value chains (intra-firm or inter-firm, regional or global in nature, and commonly referred to as Global Value Chains or GVCs) shaped by TNCs account for some 80% of global trade. The developing country share in global value added trade increased from 20% in 1990 to 30% in 2000 to over 40% in 2013.

The international fragmentation of production is driven by changes in the business and regulatory environment, new technologies, shifts in corporate thinking and firm strategies, and the systematic liberalization of trade and investment over the recent past decades. Evidence based on the World Input-Output Database (WIOD) [1] shows that global value chains (GVCs) are creating more and more of world income, including labor income. This is by no means limited to manufacturing; indeed more income is generated by exporting services within GVCs. Moreover, the fragmentation of the production process across different countries has led to a strong trade-investment nexus.

The linkage between value chains development-trade-growth is not new. At first point, the value addition increased trade that positively affects growth in incomes is by stimulating productivity. Recent data[2] show that higher value-added exports, part of which result from participation in GVCs, are associated with higher growth rates. GVC links in developing countries can play an important role in economic growth. Domestic value added created from GVC trade can be very significant relative to the size of local economies. In developing countries, for example, value added trade contributes some 28% to countries' GDP on average, as compared with 18% for developed countries [3]. Furthermore, there appears to be a positive correlation between participation in GVCs and GDP per capita growth rates. Economies with the fastest growing GVC participation have GDP per capita growth rates some 2 percentage points above the average. Countries that, over the last 20 years, managed to grow both their participation in GVCs and their domestic value added in exports experienced GDP per capita growth of 3.4% on average, compared to 2.2% for countries that only increased their participation in GVCs without "upgrading" their domestic value addition.

[1] IMF 2013: Trade Interconnectedness: The World with Global Value Chains
[2] Ibid
[3] UNCTAD 2013: Global Value Chains and Development

2. Trade-led Development needs Focus on Value Chains

Global Value Chains or supply chains have gained increasing importance in global trade relations and therefore in export-oriented development strategies of countries. The underlying principle is always a fragmented production where lead companies source inputs from suppliers based on agreed terms and conditions, often using international and private standards. While the impact on trade and economic growth is well established, from a developmental perspective the impact on employment or the environment is less straight forward and a number of bad practice examples have made it in the news in recent years.

While Global Value Chains create the opportunity for enterprises to move up the value addition ladder, they also offer the possibility for workers to acquire needed higher skills levels and work under better conditions. The developmental impact in Global Value Chains however depends on the governance and requirements by the partners for compliance with international standards for products, labour, health & safety and environmental impact.

When requested and enforced, such standards compliance can be an important motivation and door opener to export markets for enterprises, while at the same time significantly improving workers conditions, skills levels and ultimately employment and income, along with a better protection of the environment through the respect of sustainability requirements.

Being applied to an entire value chain, good governance and standards compliance can become a powerful tool to improve the living conditions of people at the beginning of a value or supply chain through market requirements set by sourcing companies and rewarded by consumers in international markets.

3. Challenges of Trade-led Value Chain Development

Trade-led value chain development is a systemic but also complex development endeavor which faces a wide range of challenges, for example:

i) Weak Value Chain Governance and insufficient coordination, synchronization of public and private actors and services;
ii) Lack of Value Chain specific Business Environment provisions;
iii) Insufficient policy advisory tools specific to Value Chains for analysis of competitiveness position, value addition opportunities, etc.;
iv) Lack of compliance with a diversity of standards that are required to provide trust and confidence in the previous and subsequent elements of the value chain particular product related standards and technical regulations such as Sanitary and Phyto-Sanitary (SPS) measures, labour standards, occupational health & safety, sustainability and environmental impact standards;
v) Low value chain performance at different stages (such as productivity at farm level, processing/operator level including lack of innovation, value addition, time and cost at border level) resulting in not competitive value chains;

vi) Scattered and uncoordinated often small-scale actors at various levels of the value chain while sourcing companies are requiring higher quantities of production volumes needed for a further integration into supply chains;

vii) Scattered and uneven skills levels at different stages of the value chains, lack of consistent good practice application along the supply chain;

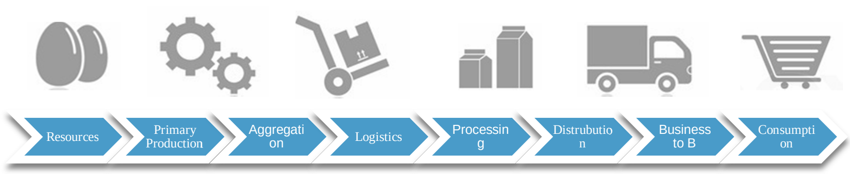
viii) High costs of trading, in particular in terms of proof of compliance (testing, certification, inspection) and for trade facilitation (cross-border flow of goods) as a Global Value Chains entry barrier.

4. Trade-led Value Chain Development requires Inter-agency Cooperation

Capacity-building activities within a value chain can be divided into several inter-connecting stages, which are required to bring a product or service from conception to final disposal after use. A mapping exercise can identify the various areas of experiences and services needed from different cluster agencies and are indicated in the table below.

Table 1 Value Chain based Areas of Capacity-building Interventions

Activities within a value chain		
Analysis (based on intervention type) & Project Formulation	Trade related financial and other auxiliary[4] services	(1)Business, Policy & Regulatory Environment
		(2)Institutional development
		(3)Enterprise level



This schematic value chain visualizes that a comprehensive, effective value chain development process requires a well-coordinated multi-agency support. The CEB Cluster partner agencies have combined expertise in all of the above-mentioned areas, which can be coordinated at the Cluster level. The available expertise focuses on the following intervention areas:

i) Value chain governance (stakeholder consultative processes/round tables)
ii) Policy and Business environment reform for sectors/value chains
iii) VC analysis, competitiveness analysis, benchmarking, monitoring, etc.
iv) Value chain cluster development

[4] Such as e-commerce, operational, tertiary markets,

v) Value chain performance development: productivity, quality management, resource efficiency and cleaner production (RECP), quality and food safety, process control, etc.
vi) Standards compliance: product, worker/labor, health & safety, environmental, sustainability
vii) Value addition, innovation, IPRs;
viii) Investment and technology transfer;
ix) Quality infrastructure and conformity assessment/product safety services
x) Trade facilitation, in particular mutual conformity recognition, e-certification, etc.
xi) Trade related finance, export credit;
xii) Business/trade linkages including between national-regional and global value chains

Inter-agency cooperation for Value Chain Development needs to be based on and combine or synchronize the specific value added each partner-agency can contribute. Such inter-agency cooperation is to be based on intervention modules that are client needs-driven and not influenced by mandates of agencies.

In terms of size and covered areas, export or trade-led value chain development clearly surpass the mandate of a single organization and therefore require a new *modus operandi* in project development and implementation.

Additionally, also donors have more and more adopted systemic development concepts and therefore have moved from single agency projects to more holistic multi-agencies programs, involving specialized agencies with complementary expertise and services. Such integrated and at the same time more specialized form of technical assistance has been recognized as having more development impact.

5. What the CEB Cluster can do for Trade-led Value Chain Development

The CEB Cluster on Trade and Productive Capacity can play a number of roles in trade-led value chain development:

i) Acting as convener and facilitator: bringing diverse set of public and private Value Chain actors together, such as the Ministries of Agriculture, Industry, Trade, Health, Science &Technology, and others; private sector, trade support institutions, etc.) thereby addressing a major challenge at national level, the lack of coordination/cooperation.
ii) Promoting thematic focus on Trade and Value Chains and establishing linkage between Value Chain, Trade Facilitation and Employment.
iii) Focusing on various groups of countries:
    a. low-income, lower-middle income countries (thereby complementing EIF funding)
    b. national and regional, intra-regional (south-south, etc.) value chain development

iv) Providing a platform to identify and disseminate Good Practices through public goods on Trade and Value Chains.
v) Bundling available specialized knowledge on issues such as Standards and Compliance (SPS) Trade Facilitation and other relevant issues for Value Chain development from existing specialized structures, mechanisms or networks such as STDF for SPS, Global Trade Facilitation Network for TF, EIF/DTIS, etc.
vi) Improving thematic inter-agency coordination at CEB level and with bi-lateral agencies.
vii) Piloting new and innovative Value Chain development models, schemes, etc.
viii) Establishing linkages with DFIs (WB, Regional Development Banks, etc.)

The MPTF can synergize the resources framework of the partner agencies around specific value chains, will allow for the design and implementation of more systemic large-scale programmes, and thus improve efficiency and effectiveness and ultimately the sustainability of such interventions at national and/or regional levels.