Session 4:
Making partnerships work: integration tools to foster private sector development in LDCs

LDCs Partnerships and Integration in Global Value Chains: Opportunities, Threats and Policy Options[1]

Executive summary

Trade figures, quantity and quality of foreign investment in LDCs and the participation of LDCs productive sector in GVCs is not yet satisfactory, mainly due to their weak socio-economic structure and scarce productive capacity. Economic performance of LDCs is also quite varied due to the countries' size, population, endowment of natural and human resources, proximity and accessibility, technological level, political stability, governance, infrastructure, etc. Therefore, every LDC has different opportunities and challenges to achieve sustainable and inclusive growth based on their specific development pattern, socio-economic structure, resources and capabilities and consequently different policy options.

Specific actions and programmes have been developed to assist LDCs to overcome their structural constraints and to optimally exploit their development potential by further strengthening global partnerships for LDCs. Some examples of these initiatives are the "Programme of Action for the Least Developed Countries (IPoA) 2011-2020", the "Cotonou Agenda for productive capacity building in LDCs", and the Enhance Integrated Framework (EIF). A key objective of these initiatives is to build viable and competitive productive capacities in agriculture, manufacturing and services sectors, strengthen the productivity of Small and Medium Enterprises (SMEs) and facilitate national and global private sector's investment. The specific needs of LDCs are also recognized in the context of the Post-2015 Development Agenda and the recently approved Sustainable Development Goals (SDGs) with specific targets and indicators for LDCs.

For years the debate on development economics dealt with a dilemma: welcoming or restricting the presence of foreign investors and partnerships with Multinational Companies (MNCs) and if they produce a positive or negative impact on LDCs' development. More recently, attention has shifted to:

How LDCs can "attract", "benefit" and "manage" the process of foreign enterprises investing and operating in their territories and on how to integrate their national production system into regional and global value chains (GVCs).

Clearly, there is a need to assess: (a) what drives access and integration of LDCs farms and enterprises into GVCs; (b) what are the benefits and risks associated to the participation of LDCs in GVCs; (c) how LDCs should develop policies and programs to engage and benefit from participation in GVCs; and (d) What policy options and measures can be taken to foster sustainable and inclusive growth.

Evidence indicates that there are important benefits for entering global value chains in terms of productivity, quantity and quality of export (sophistication and diversification), access to know-how and markets. The level of LDCs' participation in GVCs is affected by the same structural factors as for the attraction of FDI: geography, size of the market, level of development and infrastructures that are key determinants of participation in GVCs. Finally, the key is how to strengthen the LDCs' productive capacity: the resources and entrepreneurial skills of the people living within a country, which can generate jobs, incomes, investment and exports to lift countries from their low-income status.

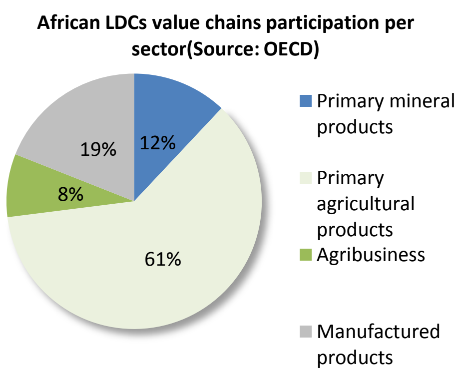
In order to strengthen the productive capacities of LDCs through private sector development, transfer of technologies and the provision of infrastructure, LDCs need to be empowered to mobilize domestically and internationally the resources needed to finance economic growth, thus reducing dependence on aid and attracting private capital inflows that can support development. In this regard, LDCs can significantly improve through South-South, regional, triangular cooperation and public-private partnerships to support their efforts towards poverty reduction, employment creation, sustainable development and integration into the international economy.

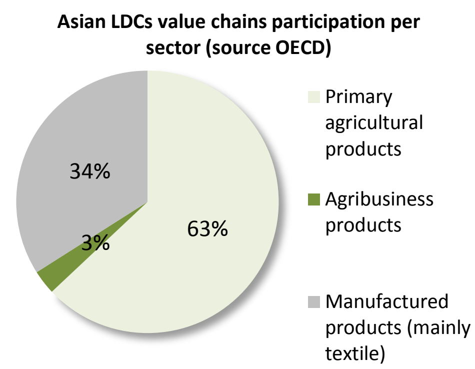
In spite of their weak supply-side and institutional capacities, LDCs are gradually integrating international production systems, especially within *commodity-based value chains* and, to a lesser extent, moving from supplying commodities in bulk to gradually capturing some niches for *value addition segments of GVCs*.

[1] This is a summary of the paper prepared by Gerardo Patacconi, Chief, Clusters and Business Linkages Unit, Business, Investment and Technology Services Branch, UNIDO, with valuable inputs by Carlota Sans, Olivier Stoullig and Sayaphol Sackda, Clusters and Business Linkages Unit.

Many LDCs have already demonstrated that they have special advantages in agriculture and natural resources, as well as in simple manufacturing as *second or third-tier supplier*. Higher value addition by LDCs enterprises can be generated when they **upgrade their quality and production capacity and skills and when they "cluster together to reach an adequate quantity of production**".

There are three forms of outputs in a value chain: r*aw products, intermediate products and finished products*. While LDCs participate in all three, their share of production in the three stages varies in the different value chains. *Some 47% of LDCs output comes from raw products* (non-processed agricultural products, cattle or fish and minerals), 39% is *intermediate products* (processed agricultural products and food items) and *only 14% of LDC output is finished products* (9% for African LDCs and 21% for Asian LDCs, mainly textiles). This implies that LDC firms are losing out on a significant amount of value-added when exporting their products. It clearly shows that there is a need for policymakers – at the global and national levels – to do more to ensure increased value addition in LDCs to improve their participation in global value chains.





Therefore, the main questions that need to be addressed are: how can LDCs efficiently integrate GVCs in order to achieve economic development? What are LDCs specificities and competitive advantages? In which sectors are they already exporting and what steps of the production process and value chain segment are more strategic? What form of partnership can be promoted?

Main Challenges for promoting LDCS into GVCs

The factors that limit the integration of LDCs producers into GVCs can be summarized as follows:

- **Poor quality** due to weak Good Agriculture and Good Manufacturing Practices
- **Small quantity** due to small-scale operations and limited cluster development and industrial zones/parks
- Limited access to modern **technologies**
- Lack of **skilled workers**
- **Weak logistic infrastructure** (transport and storage facilities, post-harvest management, packaging, testing…) and **bureaucratic constraints**
- Limited knowledge about international **markets**
- **Price** uncertainty
- **Political volatility** which affects a smooth working environment and which also impairs the prospects to more fully participate in global value chains…

In detail, the challenges for LDCs in engaging in GVCs can be grouped as follows:

1. Common challenges

- Logistical challenges for both internal and external trade, especially for it is considered to be a major bottleneck for the development of value chains in LDCs
- Infrastructural challenges: physical infrastructural facilities in terms of roads, ports and air infrastructures, access to energy, to information technology (IT). Etc.

- Business Process challenges: Business enabling environment in LDCs is often in a poor state (cost of starting-up/do business, customs procedures..).

2. Challenges by process level

Commodities		Manufactured products	
Upgrading value chains	Operational challenges	Upgrading value chains	Operational challenges
In the case of agricultural products, e.g. coffee value chain in Ethiopia, upgrading is through improvements in washing operations and other technologies. TC is provided to farmers and cooperatives: post-harvest handling and upgrading of skills of washing station…In the case of the cotton value chain, upgrading in production technology, development of pest and disease surveillance system, post-harvest management, entrepreneurship development and cluster development…	The challenges are very similar for all commodities, fresh and processed produce. Most of these supply chains are constrained by the lack of quality raw materials, technology and know-how, inadequate productive capacity, inadequate access to capital and finance. Both small farmers and production stage include inaccessibility to quality inputs, limited use of modern technologies in farming and harvesting, insufficient support from extension services, small-scale operations, and lack of skilled workers.	The challenges for SMEs , mostly working as third or second tier supplier are lack of quality of inputs, GMPs an standards, inadequate access to technology, capital and finance, small-scale operations, and lack of skilled workers.	In the case of manufacturing value chains, major challenges are: lack of technology spillover, limited skills of workers, poor health and safety condition, inconsistent quality, unfavorable tariff structure and shortages of skilled manpower.
In the case of minerals, for example tin ore and iron in Rwanda, the upgradation process has been rather slow. Exporters are less interested in processing materials as they focus on export of non-processed goods. The exporters could have reduced their costs by processing the materials at local level instead of incurring additional expenses by wasting a significant part of the unprocessed materials during transportation	In case of value chains of *minerals and other resources*, major challenges relate to the lack of human resources and technical expertise (particularly in metallurgical sector), weak institutional capacity and time consuming licensing process. Further, the scope for vertical linkages in the primary sector is quite small, linkages are more likely when investment uses intermediate goods intensively, communication costs with the home company are high and home and host countries are similar in terms of intermediate goods.	In the case of the manufacturing sector value chain - for example apparels in Bangladesh - Significant improvement has taken place in terms supplier-buyers relations and machine and worker productivity. Key issues are related to the productivity and compliance but overall with the limited productive capacity of local SMEs that need to cluster together and ideally work in an industrial zone/park.	At the processing stage of the agricultural value chains, major challenges are: weak storage facility, lack of post-harvest management, contamination of diseases, poor packaging facility, limited quality assurance facility and lack of knowledge. The challenges at the marketing stage are: high cost for certification, poor packaging, limited knowledge about international markets, price uncertainty, underdeveloped market chains and unreliable transport facilities.

Fostering Partnerships to achieve LDCs integration in GVCs

In order to foster LDCs integration into GVCs, great opportunities may arise from promoting Public–Private Partnerships. By engaging in partnerships with the private sector, donors and international organizations, LDCs can create a business friendly environment to develop infrastructure, create technological and skills spillovers and, finally, strengthen and give market opportunities to their farms, SMEs and services through productive capacity.

LDCs have advantages and opportunities regarding the attraction of foreign direct investment:

- Proximity to new markets and accessibility;
- Availability and low cost of inputs (natural resources; labor, land, etc.),
- Preferential treatment given by the International Trade System.

Stakeholder engagement and building solid partnerships are necessary to achieve development results. The main forms or partnership are:

a) Bringing LDCs, the private sector, civil society and other partners together to facilitate exchanges and dissemination of knowledge and information, facilitate partnerships, and forge common positions and plans of action for inclusive and sustainable industrial development;
b) Joining forces with other UN organizations and counterparts from the international community, especially International and Regional Development Financial Institutions (IFIs) and financial private investors;
c) Working closely with the private sector, by building partnerships with buyers and MNCs to advance inclusive and sustainable industrial development while simultaneously driving business value; and
d) Promoting establishment of knowledge networks.

Therefore, partnerships need to integrate diverse actors such as MNCs, local SMEs, donors and local institutions to give access to new markets to local SMEs and build their capacity.

Country Partnerships

In order to operationalize the partnership approach, UNIDO developed a new type of assistance package for its Member States: the Programme for Country Partnership (PCP). The PCP is not a static template, but a custom-built partnership formula with each beneficiary country maintaining ownership of the complete process by defining its needs and required support, and finally ensuring the success of its delivery. Each PCP is aligned with the national industrialization priorities and development plans of the beneficiary country. At the same time, the selected countries need to be fully aligned with inclusive and sustainable industrial development (ISID) objectives and demonstrate full ownership of the Programme. They need to embed the PCP into their national resource mobilization strategies, and remain open to partnerships for upscaling technical cooperation services and leveraging additional resources. Ethiopia and Senegal, two LDCs have been selected as the first pilot countries.

Sustainable Supplier Development

While many LDC governments focus on promoting Public-Private Partnerships (PPP) for building needed infrastructure, SMEs also need support to develop strong and sustainable linkages with buyers, locally and internationally through partnerships with MNCs, governments, international organizations, clusters and industrial associations. UNIDO, through public-private partnerships with international MNCs facilitates those linkages. Building partnerships with the private sector ensures: Access to markets and integration to global value chains; Industrial sector diversification; Technological and skills transfer; Increased value addition to commodities and other natural resources.

Partnerships with private sector support institutions

Private sector support institutions can enhance SMEs capacity in very different ways by providing required support services including: Vocational Training Centres (VTCs) matching workers' skills with the private sector needs; Chambers of Commerce that provide SMEs with advice on exports requirements and contractual negotiation; Universities, R&D and Laboratories, business incubators/accelerators, clusters and Industrial Zones to develop and share techniques, technologies and innovative research. Partnerships is related to the need to increase producers' access to credit to allow SMEs to investment in equipment and inputs to develop their activities.

Modalities of partnerships, strategies and policy options by SECTOR

To support LDCs businesses to integrate into regional and global value chains requires a focused approach based on each country's potential and resources. In this perspective, development programmes must target specific sectors and opportunities. The analysis presented below gives some indications of the different options for integrating LDCs productive sectors in GVCs.

A) Retailers and supermarkets value chain

Key Objective of the company investing /operating in the LDC	Key Possible negative effect	Key Possible positive effect	Elements for policy attention and partnerships modalities	Example

Access to consumers: respond to demand for non-traditional and higher quality/price products by growing middle class and expatriates.	Disruption of local retail sector
	
	Risk of losing jobs and income of producers for low-level market products
	
	Drive down margin for local producers
	
	Local SMEs don't have the productive capacities to supply the retailer and thus, there are no positive effects
		Increase in local sourcing (especially fresh produce)
		
		Employment, skills upgrading, higher product quality and safety, logistic infrastructure…
		
		Lower price for consumers
			• Local content/ sourcing
			• Negotiate access to logistic platforms and systems
			• Skill upgrading and gradual increase of locals at managerial position
			• CSR funds and practices (labor, environment, fair salaries)
			• Support clusters/consortia/ cooperatives critical mass for local suppliers
			• Technical assistance to provide farmers and manufacturers with the capacity to:
			  ○ Improve technology and quality of the products enabling them to produce at a larger scale.
			  ○ Assure skills and technology spillovers
				PPP for Supermarket chains sourcing locally: the Sustainable Supplier Development Programme (SSDP)
				
				UNIDO has developed in the last few years a new model to provide local suppliers, both farms and manufacturers , access to a profitable market and value chains emerging from the establishment, also in LDCs, of global and regional supermarkets' chains. Emphasis of the approach is to cluster farms and SMEs, upgrade their capacity to comply with quality, food safety and social and environmental standards so as to be accepted as suppliers.

B)

C) Commodities/Agribusiness value chain

Key Objective of the company investing /operating in the LDC	Key Possible <u>negative</u> effect	Key Possible <u>positive</u> effect	Elements for policy attention and partnerships modalities	Example
Access to fertile land, climatic conditions, and cheap labor	Climate Change including land degradation, Water shortages…. Losing ownership on fertile land Low wages, no skill upgrading High-quality products exported not available for local consumption and processing	Job opportunities Income opportunities Access to know how and skills upgrading Local supply chain/clusters Opportunities for value addition Technology upgrading	• Land concession policies • Anti-corruption • Local Economic Development policies that foster local clusters/consortia • Promotion of local value addition (processing manufacturing) • Policy for agribusiness development • MNCs engage themselves for skills spillovers and technology upgrading for their workers and suppliers SMEs. Entrepreneurship in agribusiness is facilitated and enhanced • Local SMEs also specialize in other segments of the agribusiness value chain with more value added like initial segments of processing and packaging or distribution thanks to technical assistance by partnerships stakeholders	**PPP to make Ethiopian Coffee value Chain sustainable and inclusive** The Project is a Public and Private Partnership with the Government of Ethiopia, IllyCoffee and UNIDO. It seeks to create shared value for all coffee stakeholders by introducing new technologies and practices to upgrade the quality and production capacity of clusters and cooperatives of small Ethiopian coffee growers.

D) Natural resources exploiting companies value chain

Key Objective of the company investing /operating in the LDC	Key Possible <u>negative</u> effect	Key Possible <u>positive</u> effect	Elements for policy attention and partnerships modalities	Example
Access to natural resources for transformation (value addition) and commercialization	Impact on the environment and social systems Risk for workers Low wages, no skill upgrading No positive impact on local economic development if local SMEs are not able to supply intermediate goods and services to these MNCs	Job opportunities Income opportunities Access to energy Access to know how and kills upgrading Technology upgrading	• Partnerships focusing on sustainability • Environmental policies • Value addition policies and incentives • Local content (services and low technology intense production) • Access to processed/final products at preferential rates for local SMEs • Development of local clusters of suppliers • Technical assistance enable local SMEs to improve their productive capacities, both in terms on quality and quantity always focusing on sustainability and having as an objective SDG9	***UNIDO and Chevron in Angola*** In Angola, growth has been capital intensive, mainly oil-driven, import dependent but has not created enough employment for a fast growing population. In 2010 Chevron, one of the world's leading energy companies contributed funding of USD 1 million to a partnership initiative to introduce entrepreneurship as a subject in secondary schools in Angola**.**

E) Manufacturing value chain

Key Objective of the company investing /operating in the LDC	Key Possible negative effect	Key Possible positive effect	Elements for policy attention and partnerships modalities	Example
Cheap labour Possibility to cover local and regional markets and relocate supply chains segments.	Risk for workers Impact on environment Low wages, no skill upgrading Local producers out of market	Job opportunities Income opportunities Access to know how and skills upgrading Local supply chain/clusters Technology upgrading	• Ensure sound localization strategies • Development of local suppliers • Support clusters/consortia/ cooperatives critical mass for being suppliers • Sustainability (social and environmental) • Industrial, trade and investment policies • Technical assistance to ensure quality management, respect of working conditions, resilience through different trainings • Links are facilitated between suppliers and retailers through partnerships	***UNIDO and Komatsu in Liberia*** The project aims to upgrade Liberia's training infrastructure to modern industry needs that will enable vulnerable groups, particularly youth, to benefit from the employment opportunities generated. In cooperation with Komatsu, heavy equipment & machinery is at the core of the current industrial development in the country.

F) Tourism and cultural and creative industries value chain

Key Objective of the company investing /operating in the LDC	Key Possible negative effect	Key Possible positive effect	Elements for policy attention and partnerships modalities	Example
Access to cultural heritage and local human talent and natural resources	Impact on local populations and culture Environmental impact Destruction of local artisanal production	Job opportunities Income opportunities Opportunities for local supply chain/clusters Opportunities for value addition Local creativity and talent Country Branding	• Land concession policies • Local Economic Development policies: Partnerships between international hotel chains and governments in terms of training and employment are needed to ensure job creation. • Tourism development policies • Promotion of local value addition • Integration of artisanal and industrial policies • Technical assistance aiming to increase productive capacities and sustainable supplier development programs is needed to facilitate the link between the international retailers/tourism companies and the local SMEs	**Development of cultural and creative industry (CCI) clusters in the MENA region** By integrating and applying UNIDO methodologies for cluster development and for job-creation through creative industry, SMEs in the CCI value chains are upgraded and clustered together to become more competitive. Cooperation provides technical and financial assistance to cluster initiatives and foster the establishment of partnership with buyers and retailers such as Habitat, Ikea and others to target profitable export markets.

G) Services (financial and non-financial) value chain

Key Objective of the company investing /operating in the LDC	Key Possible negative effect	Key Possible positive effect	Elements for policy attention and partnerships modalities	Example
Market opportunities	Disruption of local service providers (banks, consultancies…) Possible political interference Skilled national no longer available for public sector's jobs	Local skills upgrading Access to high-quality services Capitalization, productivity…	• Sound Government procurement policies • Partnerships between donors, MNCs and local SMEs are needed so that local suppliers (banks, consultancies) are not displaced but on the contrary trained. • Regulatory systems	**UNIDO and HP: Joining hands to provide business and IT training for job creation** HP LIFE is a global programme that trains students, aspiring entrepreneurs and small business owners to harness the power of IT to establish and grow their businesses. By equipping entrepreneurs with skills to overcome some of the challenges they face, the partnership programme aims to create jobs and in turn trigger poverty reduction.

Policy recommendations

- **Measures to deal with Local Content Requirements:** to put in place effective measures to make local suppliers able to provide inputs and to monitor its implementation
- **Measures for building productive capacity:** Assure an appropriate business climate through the review of business regulations, competition law, etc. Invest in backward and forward linkage sectors of GVCs and building partnerships and vocational training and capacity building (VTE);
- **Measures to develop trade-related infrastructure**: Ensure better connectivity and energy access through infrastructure investments
- **Measures for access to inputs and logistics**: Support for better access to quality inputs, improve storage facilities and platforms
- **Measures to strengthen trade and industrial policies:** Give better policy support (competition, fiscal and budgetary) for the sectors which support GVC operations
- **Measures to ensure positive spillover of FDIs:** Develop competition law and proper enforcement so that local companies are not disadvantaged with respect to MNCs; government procurement policies, labor and environmental regulations; technology transfer,
- **Measures to overcome Climate Change.**

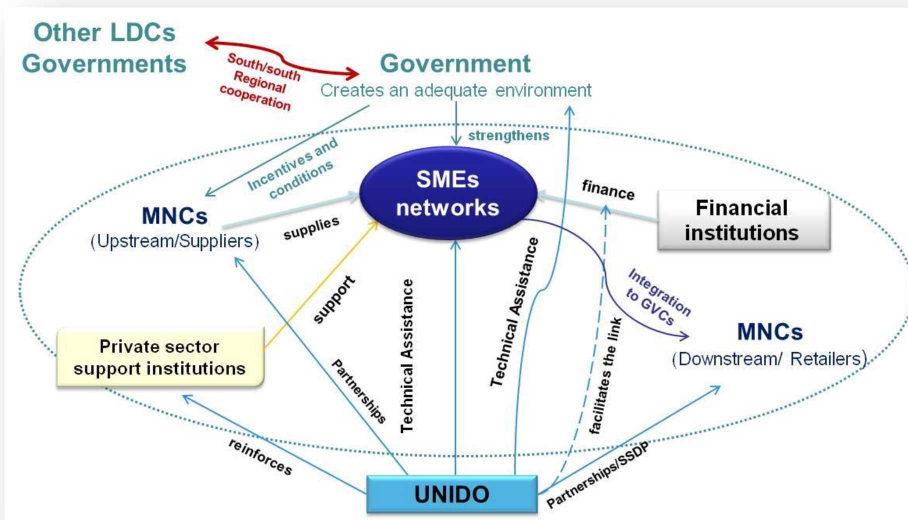
LDCs Governments and private sector can be assisted through:

- Technical assistance to policy building in order to ensure sustainability
- Facilitation and monitoring partnerships with foreign investors to upgrade domestic suppliers (technology, good practices, technical and skills development, etc.)
- Facilitating SMEs and farms to work effectively and collectively through the development of clusters, consortia, cooperatives and networks
- Promote the development of industrial zones/parks/hubs
- Development of LDCs PPP programmes for value addition, clusters and supplier development and integration into GVCs by main resource:
    - **Commodities Value Chains (Cocoa, Coffee, Sugar, Cotton…..)**
    - **Manufacturing (Agribusiness such as food, leather, textile, wood; electronics; construction...)**
    - **Supermarkets sustainable supply chains (agro-food and other agribusiness suppliers)**
    - **Mineral-based Supply Chains (local supplier for inputs in construction and operation as well as services such as maintenance, hospitality….)**
    - **Sustainable Tourism and cultural and creative industries (Suppliers for construction and operation of hospitality industry and services and for design-based and creative-based industries)**

Conclusions

In order to integrate GVCs, LDCs' SMEs need to develop strong linkages with buyers (manufacturers and retailers), locally and internationally. UNIDO's experience shows that building public/private partnerships with international MNCs provides winning opportunities for farmers and SMEs that receive technical assistance and access profitable markets. With sound policy reforms and measures, and by choosing the strategic sectors where local producers have comparative advantages to attract FDIs, responsible foreign investors can then contribute to sustainable and sustainable economic development of LDCs and help them to integrate to global value chains. In the specific case of LDCs, which are highly endowed with natural resources and where exploitation requires high capital investments and know-how, it can be strategic to develop upstream and downstream activities related to these natural resources, developing at the same time partnerships between MNCs and SMEs in order to assure positive spillovers and externalities and developing a stronger local productive capacity and supply.

LDC Ecosystem



QUESTIONS

1. **How to attract Foreign Investors and facilitating domestic firms' entry into GVCs?**

2. **How to "manage" and "monitor" the relation/partnership with MNCs entering LDCs markets so as mitigate risks and increase social and economic development impact?**

3. **What are the options and modalities for strengthening local small and medium-sized enterprises (SMEs) through: a. Upgrading; b. cluster and consortia development; and c. industrial zones/parks?**

4. **Which partnership models can foster the development of LDCs' productive capacity?**

5. **Which partnership solutions and programmes can be developed to integrate LDCs producers in GVCs for commodities (agricultural and mineral), manufacturing and services?**