INTER-AGENCY WORKING GROUP ON THE PRIVATE INVESTMENT AND JOB CREATION PILLAR OF THE G20 MULTI-YEAR ACTION PLAN ON DEVELOPMENT

"Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains"

SUMMARY OF PILOT RESULTS AND IMPLICATIONS FOR INDICATOR METHODOLOGY

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ABBREVIATIONS

DCED	Donor Committee for Enterprise Development
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
G20	Group of Twenty
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
IAWG	Inter-Agency Working Group
ICT	Information and Communication Technologies
ILO	International Labour Organisation
IPA	Investment Promotion Agency
LDCs	Least Developed Countries
LICs	Low Income Countries
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MYAP	G-20 Multi-Year Action Plan on Development
NGO	Non-Government Organization
ODA	Official Development Assistance (OECD Development Assistance Committee)
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
SIC	Standard Industrial Classification
SME	Small and Medium-sized Enterprise
TNC	Trans-National Corporation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization (UNIDO)
WTO	World Trade Organisation

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KEY MESSAGES

1. **Private sector investment,** including domestic and foreign direct private investment, when operated in a responsible manner, can be a **key driver of economic development, job creation and inclusive growth**.
2. Attracting and generating private sector investment requires that the general framework conditions, such as **a sound legal and regulatory framework for domestic and foreign investment**, and efficient associated procedures to be in place.
3. Once such a sound framework is in place, developing-country governments, working in collaboration with the private sector itself and with development partners, can maximize economic value-added and job creation from private sector investment by **establishing priorities and focusing scarce resources on specific industries, value chains or segments of value chains.** The indicator framework developed by the G20 High-Level Development Working Group aims to inform this process.
4. In applying the indicator framework, governments need to take into consideration the various **externalities (both positive and negative) that often accompany private sector investment.** These cannot be easily quantified but nonetheless can strongly influence the ultimate development impact of private investment.
5. The **indicator framework** has been developed as a **flexible policy tool – building on a range of instruments already available to countries**, such as UNCTAD's Investment Policy Reviews (IPRs), the OECD's Policy Framework for Investment reports, the World Bank’s Doing Business Indicators, FIAS’ regulatory reform and investment generation services and UNIDO's work on value chains for development. Developing countries can customize the indicators framework and put it to use to promote their specific development goals and aspirations. The indicator framework can also serve as a basis for efforts to support beneficial impact by international organizations and home countries, in their co-operation with each other and with their partners in developing countries.
6. The piloting of the indicators approach, as summarized in this report, shows that the framework is a **feasible basis for countries to examine the impact of value chains** and **deliberate on desirable policies** and actions to maximize economic value added and job creation. **They need to be adapted to fit country and value chain segments**. The piloting also raises a number of methodological, data and interpretation issues, as well as how to take these on board. UNCTAD is already implementing elements of the indicators framework in a number of its areas of work, including the IPRs, the Investment Policy Framework for Sustainable Development (IPFSD) and research on responsible investment in agriculture.

INTRODUCTION

In November 2010 the G-20 leaders adopted the Seoul Summit Declaration and recognized "*the critical role of the private sector to create jobs and wealth, and the need for a policy environment that supports sustainable private sector-led investment and growth*" as one of the six core principles of the Seoul Consensus and the Multi-Year Action Plan on Development (MYAP). In this regard, the G-20 leaders committed to "*identify, enhance and promote responsible private investment in value chains and develop key indicators for measuring and maximizing the economic and employment impact of private sector investment*".

An Inter-Agency Working Group (IAWG), under the leadership of UNCTAD, was formed to support the G20 achieve this objective. The IAWG includes representatives from UNDP, ILO, OECD and the World Bank, as well as the co-facilitators of the Private Investment and Job Creation Pillar, Germany and Saudi Arabia, and other invited organizations, including UNIDO and DCED. In collaboration with the local stakeholders, for the G20 Summit in Cannes, in 2011 IAWG submitted an interim report which introduced the "indicator framework" as a policy tool to measure, and thereby, maximize economic value-added and job creation arising from private sector investment in value chains. Later, for the G20 Summit in Los Cabos in 2012, UNCTAD, in collaboration with other IAWG members provided the 'Final Report on Private Investment and Job Creation' which generates policy recommendations for improving the business climate and the regulatory framework for foreign and domestic investment and assisting developing countries to attract the most value adding investment to their economies.

Subsequent to the presentation and approval of the "indicator framework", UNCTAD tested the proposed methodology in six low-income countries across five sectors, with the objective of developing specific policy recommendations for those countries, but also to use the experience to refine the indicator framework as necessary for full implementation (annex table). Based on these country pilot studies, this final report summarizes the main findings and presents key issues for effective application of the framework. The aim of the framework is to provide a tool for concrete and measurable inputs in policy formulation to promote sustainable investment and development.

I. SUMMARY OF PILOT RESULTS

Pilot studies were conducted in a number of low-income countries, examining investments in various global value chains in chosen industries (table 1). The objectives of the pilot studies were to:

1. Provide value-added recommendations to policymakers on attracting and benefiting from private investment in specific value chains. These recommendations must be seen against the backdrop of recommendations on the overall policy framework for investment in each country.
2. Refine the indicator methodology developed by the IAWG for the G20, and to provide guidance for the meaningful use of development impact indicators in the formulation of policy recommendations in the area of investment.

Table 1: Pilot studies: choice of country/industry combinations

Value chain \ country	Bangladesh	Cambodia	Dom. Rep.	Laos PDR	Mongolia	Mozambique
Textiles / Garments	**1**	**1**		**2**		
Tourism			**1**		**1**	**2**
Logistics						**1**
Services outsourcing	**2**		**2**			
Agribusiness		**2**		**1**	**2**	

Note: within the framework of the selected industries/value chains, the numbers denote the two deemed most likely choices for each country.
Source: UNCTAD

In order to make the pilot studies feasible in terms of time and resources available, the work was confined to six countries and a limited number of value chains and industries. For each country, one industry was chosen (two in the case of the Dominican Republic) and some comparability/contrast was built in to the extent possible (e.g. both garments and tourism was included in the case of two countries each). In each country, the work involved a mix of desk research, data gathering, fieldwork, interviews and synoptic analysis. Entities contacted or interviewed companies, industry associations, government agencies, international organisations and research institutions.

Bangladesh

Services outsourcing and the textiles/garments value chain were considered for the country, with the latter chosen partly because of its huge current significance to the country (e.g. in terms of employment and exports), as well as it being a priority for the Government of Bangladesh. The government considers the value chain as essential with respect to industrialization and a priority for efforts to attract private investment, in particular foreign direct investment (FDI). The findings of the study are summarised in table 2; essentially it is recommended that focus should be given to extending the country's participation in specific segments of the textiles/garments value, building on considerable local industry strengths;

and to reinforcing this process by improving the tax yield (currently low) in order to develop infrastructure and other supporting industries.

Cambodia

As with Bangladesh the garments value chains was chosen over agriculture because this industry plays a significant role in Cambodia's industrial development and generation of export revenues and employment. It has been and remains the vanguard industry for industrialisation and is a priority area for the Cambodian Government's efforts to attract private investment, including foreign direct investment (FDI). Though the industry is by far the largest in the manufacturing sector, accounting for the bulk of production, value added, employment and exports, the narrow focus on a particular low-value added segment of the value chain (cut, make, trim; CMT) means that the country does not gain as much as it could. The recommendations in the report therefore centre on strategies to increase local value added, using local and regional resources and opportunities (table 2).

Dominican Republic

For the purpose of the country pilot study, and the testing of the usefulness of the indicator approach, this report examined two value chains: (i) Tourism and (ii) Services Outsourcing. These two sectors are currently a priority in the DR Government’s development strategy, and a priority for efforts to attract private investment. In the case of tourism, though more could be done to benefit from the value chain, the report found that its development contribution is in line with or better than international comparators. Given the competitive nature of the industry in the Caribbean, exploring specific options to upgrade into higher value added segments (or sub-segments) in tourism should take into account consequences. At the same time, the tax yield from the industry could be improved, for the betterment of the development effort as a whole. Services outsourcing in the country is currently very narrowly based and while options for upgrading are feasible, this has to be in the context of carefully designed policies to develop the requisite skills and target specific investors. This strategy has to be implemented in an integrated way in order for it to succeed (table 2).

Lao PDR

The focus of this report was on the coffee value chain, within the context of the wider agriculture and agribusiness sector. The agricultural sector remains a mainstay of the overall Lao economy, and continues to be in need of private investment activity, including foreign direct investment (FDI) inflows, not least to utilise it as an engine of growth. The coffee industry is one of the leading cash crop commodities within the Lao PDR’s; it represents an established value chain, which can be fully discerned and evaluated, and where private investment, including FDI, is apparent. Given the dynamics of the global coffee industry, there is also significant potential for increased coffee-related investment and business activity in the Lao PDR. From the study, what becomes clear is that the potential of the coffee value chain in the country is not being fully realised, for example because of a lack of adherence to international standards and insufficient investment in some segments, such as manufacturing. The report recommends strategies in improving these bottlenecks for the industry/value chain. At the same time, even this level of development in the coffee value chain is a good role model for other agribusiness chains in Lao PDR, especially because of the benefits arising from commercialisation and formalisation of these chains. Small-holder farmers and the communities in which they are based can be among the beneficiaries (table 2).

Mongolia

Although agribusiness was seriously considered for analysis in the case of Mongolia, tourism was chosen because the recent and continuing boom in mining is creating a dynamic which is effectively re-orientating the structure of the economy. However, the travel and tourism value chain is a key initial beneficiary of the mining boom (especially in the business travel segment); and further diversification or upgrading of the industry can build on this. This said, the expected growth of business travel over the next few years is not yet matched – to a very big degree – by the planned capacity increases of business travel facilities in Ulaanbaatar, the capital (as well as elsewhere). If not corrected, this will create bottlenecks in the economy, constraining growth and development. The report recommends a strategy to take advantage of demand in the travel and tourism industry by developing the necessary supporting industries; and, in order to do this, raising the fiscal take from the mining and tourism industries/value chains (table 2). Beyond this, there are prospects of widening the countries' participation in niche, higher value-added segments of the value chain.

Mozambique

The choice of the Maputo Development Corridor (MDC) logistics value chain for this country pilot study reflects both the importance of the value chain to the Mozambique economy and the usefulness of testing the indicator approach with a sector that differs in its raison d'être compared to value chains examined in other country cases. The logistics value chain differs from others analysed in this pilot phase because its main purpose is to induce physical linkages and productivity/cost reduction effects in other industries. In this context, indicators such as increase in trade and investment (in other industries) better reflect the impact of private sector participation in this particular value chain. The logistics value chain in Mozambique also illustrates the importance of public-private-partnerships, as well as non-equity modes (rather than investment/FDI per se), as a basis for private sector participation. Despite MDC's successes as a regional logistics hub, and driver for FDI and non-equity operations by foreign companies in Mozambique, the Maputo Corridor has enormous opportunities for further growth as a crucial logistics value chain encouraging regional integration, as well as development within the country. However, it is recommended that this should be accompanied by key policy actions that take into consideration economic and social benefits to local businesses and communities in the interest of sustainable, inclusive development. It is also recommended that the lessons of the MDC should be applied to other logistics value chains in the country (table 2).

Table 2: Summary of Country Pilot Results

Country	***Key findings***	***Key policy recommendations and elements of action plan***
Bangladesh **(Garments)**	• Bangladesh concentrates on the central production parts of the textiles and garments value chain (i.e. mainly garments manufacturing, with little involvement in textile manufacturing, and a heavy reliance on imported input material). • Garment manufacturing drives the industrial development and good export performance of the country. • The local textiles sector has been growing as a backward linkage sector for garments production. • Bangladesh continues to have a very strong comparative advantage in cheap labour.	• Expansion of existing activities, focusing on low-value, basic garment production can continue be a mainstay of the sector into the middle-term. • Optimizing the contribution of the textiles segment (fabrics) of the value chain, thus filling the linkage gap between textile and garment industries, is warranted. • Upgrading into higher value products, thus leveraging the advantage of low wages in the production of suits and fashionable garments can be a viable strategy. • Moving into adjacent segments of the value chain (extending backward – e.g. textiles input provision, or forward – e.g. packaging services, price tagging, shipping) are feasible. • Improving the tax yield from the value chain should be a priority.
Cambodia **(Garments)**	• Cambodia's current role as a cut-make-trim (CMT) operator in the garments global value chain offers limited profit margins and local value added. • Even within this small segment (CMT) of the value chain, the value added has been declining due to high import of intermediate inputs in garment production. • Complications related to cross-border trade are putting Cambodia at a disadvantage. • The high share of foreign owned garment factories points to the need for policies to promote local entrepreneurship.	• An initial expansion of value added in the country is possible through higher local involvement in cutting activities. • FDI and regional cooperation may be instruments to stimulate the textile sector and reduce the dependency on the imported material. • The Cambodian garment industry may diversify its product portfolio and end-markets, thereby generating higher value. • To some extent this last strategy could draw upon skilled workers and managers created by the expansion and development of the industry.

Dominican Republic (**Tourism**) (**Services Outsourcing**)	• The economic development contribution is in line with or better than international comparators, in terms of value added (including local sourcing), employment generation and export generation. • Concerns regarding low wages in the sector are confirmed if compared to other sectors in the economy, but are largely in line with international peers. • Concerns regarding the limited fiscal revenues generated by the sector are also confirmed. However, the fiscal contribution of the sector, including indirect taxes, again appears to be above average compared with regional peer countries. • The development contribution of call center operations, the basic 'entry-level' segment of the value chain, is quite significant, and any additional contribution from moving into higher-value added segments will be relatively small and longer-term in nature. • The primary constraint on the growth rate of call center operations is the local skills base and the availability of qualified local personnel. This constraint will be even more important for other segments.	• There are opportunities to increase the tax yield from investors by rebalancing the take between investors and tourists (and between direct and indirect taxes). A detailed feasibility study may be warranted on the effective impact of measures that would increase the corporate income tax contribution of the sector, probably in a phased manner. • Given the current better performance of the sector benchmarked against regional averages, any additional commitments over and above those given to the sector as a whole for a the specific purpose of promoting upgrades to higher value segments should be considered carefully. While upgrading into higher value added segments of the Business Process Outsourcing (BPO) value chain, and extending into the other clusters in Services Outsourcing are valid aims, actions in this regard should be balanced, with clear pathways for achieving goals in the mid-to long term. • Given the importance of skills development for the attraction of both local and foreign investment and further growth in this sector, a detailed study on possible education and human resource development actions may be warranted. • Effective pathways to upgrading and extending into other Services Outsourcing clusters require action in targeting investors. In particular, investment promotion policies are needed to attract Services Outsourcing companies that specialize in ITO and BPO type of operations.
Lao PDR **(Agribusiness, the coffee value chain)**	• Lack of internationally-recognized quality certification by producers in Laos reduces the value of Lao coffee products significantly in international markets.	• Attracting further investment and/or formalized contract farming arrangements into the sector (including through FDI) may help to improve the standards and quality of coffee production.

	• Even though coffee processing in the country has risen in recent years, it remains a fraction of the total crop each year. • The clash in the harvest periods of rice and (Arabica) coffee raises its price by one third because of limited labour availability. • There is a big scope for the further development of formalized, commercial operations in Laos, including by small-holder farmers.	• Attracting investment into manufacturing facilities (e.g. roasting, producing instant coffee) may yield a number of benefits in the medium-term, both in terms of higher local value added and increasing the competition/competitiveness in this segment of the sector. • The commercial and formal nature of the coffee sector has been instrumental in improving the welfare of farmers, especially small-holders, and could be used as a role model for other sectors in Lao PDR.
Mongolia **(Tourism)**	• The expected growth of business travel over the next few years is not yet matched by planned capacity increases of business travel facilities in Ulaanbaatar. • Mining towns also offer potential for professionalized accommodation services provision. • More business opportunities may be found in leisure time activities for mining personnel and business travelers, which may increase the average length of stay in the country and expand the sector's contribution to the local economies. • The leisure tourism sector's largest policy challenge is its lack of a clear sector strategy; a low-volume, high-end niche market approach seems a natural choice for leisure tourism. • A major concern is the emphasis on the mining sector at present. This leads to a concentrated transport network and a short supply of skilled workers which places constraints on tourism growth in Mongolia.	• The foreseeable growth of the hotel industry should encourage the Government of Mongolia to put in place a solid policy framework to facilitate related investments. • A clear tourism strategy directed to niche-tourism products is needed to encourage a further development of leisure tourism activities. • There is an opportunity to increase the fiscal contribution of the travel and tourism sector. • Supporting centralized services and broader leisure activity provision may need specific government initiatives. • Development benefits could be significantly increased by fostering cross-sectoral linkages.
Mozambique **(Logistics)**	• Mozambique has benefited from private investment in the Maputo Development Corridor (MDC) logistics value chain – made mostly in the form of PPPs, and	• The logistics value chain - and development impacts arising from it - may benefit from more proactive policies, including:

	participation through non-equity modes (e.g. concessionaires). These benefits are both direct and through induced effects arising from boosting transport and communications infrastructure. • The development of the MDC logistics value chain has *induced* physical linkages and productivity/cost reduction effects in other industries, eliciting a positive impact on the country's overall trade and investment position. • This also translates into gains in overall value added, GDP/GDP per capita growth, employment and fiscal revenues. • Positive economic and social impact on the wider community is however minimal, primarily because the MDC has not placed any priority on linking the regional logistics chain with communities and businesses in Maputo province.	o greater commitment in carrying out the planned reforms o further cooperation between neighbouring authorities o a closer consideration to widening the economic and social benefits to local businesses and communities in the interest of sustainable, inclusive development. • A revision of the PPP legal framework, measures to improve the efficiency of the customs procedures, and a more coherent institutional structure may support the expansion and development of the MDC, as well as other logics value chains in Mozambique.

Source: UNCTAD

II. IMPLICATIONS FOR METHODOLOGY

Overall, the indicators analysis proved to be an appropriate tool to examine the retrospective and prospective (potential) impacts of private sector investment in value chains in low-income countries. The indicators chosen covered the main relevant areas to identify sector priorities and bottlenecks for attracting investment, as well as to evaluate impacts on the economy in general. However, it is important to take context into account - no one size fits all - and, in particular, recognize that the nature of impacts can vary between value chains. The indicators framework should therefore be applied carefully, and adapted accordingly. In the case of Mozambique, in particular, it was necessary to focus more on *induced* impacts, rather than direct or indirect effects because of the specific characteristics of the logistics value chain. In addition applying the indicators framework is one thing; beyond this judicious interpretation is essential (see country pilots, annex 1).

Table 3: Development impact of investment by type of global value chains: Summary of selected issues

Issue	Type/example of value chain		
	Garments (In Bangladesh and Cambodia pilots)	**Tourism** (In Dominican Republic and Mongolia pilots)	**Logistics** (In Mozambique pilot)
Key nodes in chain	Lead buyers, key designers, textile production, garment assembly.	Travel and transport agencies, accommodation, restaurants, tours and shopping	Ports and road/rail operators, distributors, exporters and importers
What are the most important type of effects on the local economy?	Involve **direct effects** visible which are directly measurable (e.g. employment in garment assembly)	**Indirect effects** important but more difficult to trace (backward linkages, tourism spend in local economy)	**Induced effects** most important but hard to measure, e.g. forward linkages through productivity / cost-reduction effects elsewhere in economy (agriculture, mining and manufacturing in the case of Mozambique)
Where is the greatest scope for upgrading or improving the impact of the value chain?	Upgrading within value chain segments important as a first step on the manufacturing ladder.	Effects on the local economy depending on 1) the volume of FDI; and 2) the extent to which there are local linkages.	Efficient logistics are key for upgrading in other value chains – e.g. in reducing constraints to growth and entry into value chains in LDCs and landlocked countries

Source: UNCTAD

The main challenge encountered during the process has been the lack of data, or its low quality in the countries piloted. Some of this is because of the inherent underdevelopment of data collection, analysis and dissemination in poor countries, but in some cases - especially on social impact indicators - few countries collect the range of data required to understand impact (and the data collected are not necessarily comparable across countries). In the longer run, such data collection might be improved through national and international measures, but in the short run this is not possible, so various methods were used to obtain appropriate data for the analysis (table 4). Retrieving data through this type of exercise requires time, but can be fruitful (as the country findings above show). Of course, any findings and recommendations proposed should be examined in further detail before any significant changes to policy are implemented.

Table 4: Data issues

Situation	Lessons
Good state of available data	• Make use of benchmarks and global comparisons to assess the business activities in the sector , industry and value chain segments (e.g. in the Dominican Republic) • Gather information from local government agencies and research institutions • Use existing sources of first-order data especially from country statistical agencies and international organisations • Use data created by the private sector, including industry associations • Supplement, if necessary, with interview-based fieldwork
Limited/ incomplete/ inconsistent data	• Do as much of the above as possible. • Make estimations and forecasts based on available data (e.g. capital formation in hotels based on average cost of building a room in a 3-star hotel in Mongolia) • Build business models (e.g. future demand for high-segment accommodation facilities in Mongolia derived from the number of outbound tourists in 2000 and 2005) • Do a meta-analysis of comparable research by other institutions to build a credible narrative and triangulate information, data and forecasts
Lack of data	• Do as much of the above as possible • Bolster this by conducting primary data/information gathering, e.g. surveys and interviews with the main public and private actors in the value chain (but allow sufficient lead-time and resources; for instance these were insufficient in the case of Mozambique). • Where time and resources are limited, gather information on comparable country/value chain combinations and draw lessons – recognizing and taking into account key difference in situations.

Source: UNCTAD

III CONCLUSIONS AND NEXT STEPS

The second phase of the G20 mandate to develop "key quantifiable economic and financial indicators for measuring and maximizing economic value-added and job creation arising from private sector investment in value chains" aimed to test the indicators framework devised by UNCTAD and other IAWG members in the "Final Report on Private Investment and Job Creation" presented in 2012.

The pilot testing was conducted in six low-income countries across five value chains. The exercise has proved to be a useful and insightful exercise in assessing the applicability of the indicator framework methodology and to identify the main areas for further work and improvement, as detailed in sections II and III.

In conclusion, the indicators framework methodology can serve as a critical first step for governments to identify potential actions on sector-specific investment policy making, although further analysis would be required for drawing more concrete policy guidelines. It is however important to bear in mind that this approach should be applied taking into consideration each country's and the value chain context.

Subject to further refinement and the appropriate adaptation in use, the indicators framework represents a viable model for utilization by policy makers, international organisations and others. UNCTAD itself has started implementing elements of the framework in some of its work on investment, for example:

- The Investment Policy Reviews (IPRs) have taken parts of the approach on board and the framework will be considered as the IPR process is restructured.
- The Investment Policy Framework for Sustainable Development (IPFSD) was informed by findings of the early country pilots, as well as the conceptual thrust of the framework.
- The design of the research instruments used in our work on the Principles for Responsible Agricultural Investment (PRAI) [1] closely parallels aspects of the indicators framework.
- The country pilots and the lessons learned from the application of the framework are being infused into UNCTAD's ongoing investment impact work, with countries such as Egypt and Saudi Arabia.

[1] To date, the PRAI project - and use of the instruments - has been undertaken in 8 African countries and 4 South-East Asian countries.

ANNEX

Summary of Country Pilots

Country	Sector	Period	Key liaison organization(s)
Dominican Republic	Tourism and Services outsourcing	November 2011 -January 2012	Investment Promotion Agency (CEI-RD)
Bangladesh	Garments	November 2011 -May 2012	Board of Investment
Mongolia	Tourism	November 2011 -April 2012	Foreign Investment and Foreign Trade Agency (FIFTA), Ministry of Tourism, National Marketing Coordination Office
Cambodia	Garments	February-April 2012	Cambodian Investment Board, Ministry of Industry, Mine and Energy
Lao PDR	Agribusiness	Late 2012-March 2013	Ministry of Planning and Investment- Investment Promotion Department, Ministry of Agriculture and Forestry
Mozambique	Logistics	October 2012-May 2013	Maputo Corridor Logistics Initiative (MCLI), KPMG Mozambique, Investment Promotion Center (CPI)