THE COMPETITIVE INDUSTRIES PRACTICE

Igniting and Sustaining Private Sector Growth

FINANCIAL & PRIVATE SECTOR DEVELOPMENT NETWORK

September 2011

THE WORLD BANK

IFC

Most developing countries struggle to create jobs. Even those with high growth rates often fail to convert them into high levels of employment and poverty reduction. Some countries are afflicted by high volatility, entering growth spurts only to suffer severe drops. Others are caught in the "middle-income trap," in which old industries lose competitiveness while new ones fail to take off. Still others are caught in low-productivity traps. All desperately need practical solutions to their development challenges, especially that of employment. Such solutions go beyond a generic agenda, and take account of what is locally feasible, to focus on the areas of highest return on public action.

"Competitive Industries" (CI) is an attempt to answer this need by helping policymakers and the public sector identify and seize windows of opportunity for sustained, industry-level growth.

THE CHALLENGE

The developing world must create at least 350 million jobs over the next decade just to keep pace with the working-age population. Africa will need 11 million new jobs each year, South Asia 14 million. The vast majority of those jobs will need to be generated in the private sector.

Yet as the development challenge intensifies, the international frameworks to deal with it are in flux. Global integration has increased rapidly. High-growth Asian economies, while fueling resource demand, continually reduce margins for generic goods and services. Inequality and unemployment persist in many developed and developing economies.

Over the past several decades, the World Bank Group (WBG) has assisted countries in implementing key parts of a macroeconomic agenda, and years of work and consensus-building on what constitutes good macroeconomic policy have paid off. However, while most countries have either completed or have begun implementing these reforms, policymakers increasingly voice the need to move beyond this generic policy agenda. They urgently require practical solutions to respond to the growing development challenge and rapidly changing international context.

THE WORLD BANK GROUP'S RESPONSE

The World Bank Group has created the Competitive Industries Practice within the Financial and Private Sector Development (FPD) Network in response to this widespread demand. CI promotes policies based on microeconomic analysis and explores micro-macro linkages. It helps design and implement policies and business models that will succeed in an increasingly globalizing international economy.

The CI Practice is designed to bring together the best of the WBG to support client countries (through both public and private sectors) to fully leverage their resources and capability in both domestic and international markets, generating and maximizing economic and social benefits.

CI focuses on policies and enablers that are specific to particular industries, with a goal to enable markets to work for the poor rather than be exploitive of the poor. Examples of projects undertaken include value chain analysis and upgrading, setting-up of growth poles, special economic zones and industrial clusters. Such projects address various industries, including, but not limited to, agribusiness, tourism, construction, manufacturing, mining

SIX CHARACTERISTICS OF A CI PROJECT

1. GET TO MICRO

   Go beyond the macroeconomic reform agenda to identify and address the real microeconomic barriers to the growth of industries with high economic and social benefits.

2. TARGET BIG OPPORTUNITIES

   Intervene aggressively—through, for example, growth poles or value-chain analysis and upgrade—to enable those industries to seize their "windows of opportunity" to grow, compete and generate inclusive, productive employment.

3. BUILD SUSTAINED CAPABILITIES

   Enhance the capacity for the public and private sectors to repeat these actions continuously and constructively, creating long-term and steady growth.

4. COMPLEMENT COLLECTIVE JUDGMENT WITH RIGOROUS TOOLS AND FRAMEWORKS

   Overreliance on one approach, instead of pursuing both, has created distorted worldviews in the past.

5. ENSURE EFFECTIVE GOVERNANCE STRUCTURES

   Create level playing fields and ensure that disproportionate benefits do not accrue to one or some stakeholders.

6. UNDERTAKE CONTINUAL MONITORING AND EVALUATION

   Reduce wasted effort and develop the fact base to halt failure and double down on success.

and ICT. In some instances, exogenous factors make clear which industry should be tackled, while in others a joint public-private dialogue is needed to create alignment and agreement. While each project is implemented differently, with high context-sensitivity, each draws on a close connection to global knowledge and a focus that spans across supply chains.

WBG involvement is flexible and tailored, entering the policy cycle—of design, implementation and evaluation—as each country's needs may require. A CI intervention will draw in multi-sector expertise, from public-private partnerships for infrastructure to skills-development programs to access to finance, and will combine technical assistance with, where necessary, lending and investment components. Since sustained implementation support is often the key to success, the WBG has a unique strength in its ability to engage for the long term, combining on-the-ground support with global knowledge.

COMPETITIVE INDUSTRIES APPROACH

INVESTING IN MANAGEMENT TO BUILD COMPETITIVENESS

Recent research has demonstrated that management matters for firm performance, and hence for long-term competitiveness. In one study, providing badly managed companies in India with intensive management consultancy support increased productivity 15% and profitability almost $500,000 per firm, due to reductions in inventory and defects along with increased output. Similar management training programs, and associated rigorous evaluation, are continuing or about to start in Ethiopia, Tanzania, Togo and Uganda. Building from experience on the ground, such research creates a tangible instrument for policymakers to dramatically increase competitiveness.

1. WHAT IS THE PROBLEM? The CI approach is demand-driven and acknowledges that countries require customized solutions and unique strategies. Hence the CI team works closely with policymakers and other stakeholders, helping them to diagnose acute distortions in a selected industry or market, and relate those distortions to the industry-level potential that could be released if those distortions were addressed. It analyzes, for example:

- The market structure and performance, benchmarked to comparator industries in other economies
- The supply chain and key players, enterprises and interconnected markets

- The types of market failure and underlying causes
- The magnitude of the economic and social benefits, and spill-over effect from those industries, e.g., typical upstream and downstream multipliers
- The policy options that affect firm behavior

Considering these factors, policymakers and the private sector jointly identify the required change and targeted outcomes for a given industry, and proceed to define actions to address them.

2. HOW WILL THE PROBLEM BE ADDRESSED? CI helps joint public-private taskforces review the options for action to move industries to grow, emerge, diversify and start creating jobs. This is done by using a results chain focused on inputs, activities, outputs, outcomes and impact.

Some actions are cross-cutting; others industry-specific. In an intermediate case, the local political economy restricts the capacity to implement meaningful cross-cutting reforms but allows industry-specific ones. In that context, confining the agenda to industry-level distortions and uncertainties makes the problem manageable, and solutions real and likely to achieve relatively more impact in the shorter term.

Once the taskforces led by policymakers have identified the portfolio of possible policy reforms and interventions, they proceed to design and action them in detail.

3. IMPLEMENTING THE SOLUTIONS. Once actions are identified that could yield the highest social and economic returns, policymakers and private-sector actors begin to scale up those factors to create widespread impact. Examples include:

- Making regulatory changes, e.g., for start-up capital requirements
- Offering specific subsidies within specific areas or to certain well-defined groups of firms
- Sponsoring training and management consulting for treatment groups of firms
- Subsidizing infrastructure access within defined areas while working on larger-scale infrastructure investment
- Changing land-access regulations or instituting new land-purchase procedures

Outcomes are evaluated, and the highest-impact interventions identified. Policymakers and the private sector execute these—alone where appropriate, together where necessary. Technical and financing support is provided by CI and, more broadly, the WBG. Throughout the process, continuous participatory input is crucial. Without it, CI projects are well-known to be at risk of regulatory "capture," faltering in their implementation, or failing to adjust to market signals. Hence the final component is a structured, fact-based evaluation of the impact achieved. Where appropriate, CI will incorporate the principles of results measurement as developed by the Donor Committee on Enterprise Development (DCED).

IMPACT

The goal of any CI project is to create a structurally different growth path for the private sector—at first within certain activities—over time catalyzing the economy as a whole. Through continual upgrading, the private sector is enabled to enter a sustained growth trajectory, in a manner far less vulnerable to extremes of commodity-led booms and busts. Concretely, the impact metrics for CI include: growth in firm size and investment; growth in number of new firms; growth in exports, where applicable; productivity trends among average and leading firms; income enhancement, where applicable (e.g., agribusiness); and, most of all, jobs created in the long run.

That growth will be built on the substantive expansion of industries that enjoy healthy ecologies for their individual firms, with leading firms able to access or generate the resources needed to continue growing. Overall, these industries will, it is hoped, grow at multiples of current rates—in the midst of an "S curve"—while generating spillovers by, among other effects, inducing wider confidence among entrepreneurs and foreign investors.

Competitive Industries represents a new departure in the field of economic development. It is a sustained attempt to put the experiences of the last two decades into practice in a holistic manner with the right checks and balances. As such, we believe it is a core part of the answer to the enormous human development challenge of the next decade.

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TABLE OF DEFINITIONS

COMPETITIVENESS	Competitiveness is the sustained ability of a firm or industry to capture an increased share of global markets in tradables and grow the local market in non-tradables.
INDUSTRY	An industry is a market in which similar or closely related products are sold to buyers.
PRODUCTIVITY	Productivity is measured by the value of goods and services produced per unit of its resources.
TOTAL FACTOR PRODUCTIVITY	Total Factor Productivity (TFP) is the portion of output not explained by the amount of inputs used in production. As such, its level is determined by how efficiently and intensely the inputs are used in production.
MARKET FAILURE	Market failure refers to a situation where a market, left to itself, does not allocate resources efficiently. Where market failures exist, there is a potential role for government to improve outcomes for the community, the environment, businesses and the economy.
PUBLIC GOOD	A public good has two properties: first, “non-excludability,” i.e., where and when it has been provided to one consumer, it is difficult or impossible to stop others from partaking of it; second, “non-rival” properties, i.e., where the amount of utility that one agent receives from partaking of the good has no affect on the amount that others can partake of it.
VALUE CHAIN AND VALUE ADDED	Value chain analysis (VCA) is a method for accounting and presenting the value that is created in a product or service as it is transformed from raw inputs to a final product consumed by end users.
BINDING CONSTRAINT	If the availability of an additional unit of resource, or the same resource at a lower cost, alters the optimal production plan, thereby increasing the profit, then that resource is said to be a “Binding Constraint.”
INNOVATION	The design, invention, development and/or implementation of new or altered products, services, processes, systems, organizational structures, or business models for the purpose of creating new value for customers and financial returns for the firm. Innovation occurs both at the “frontier” and as “catch up.”

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