ODI Report

Supporting Jobs and Economic Transformation

A synthesis note on the World Bank Group

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Key conclusions

Coordinated actions around competitive sector activities are crucial to promote economic transformation. The development of specific competitive sectors has been key to dynamic growth periods and hence to long-term transformation, even in countries where wider aspects of economic governance have not improved.

The World Bank Group should improve its measurement system for economic transformation and its internal incentives to cluster support around a number of targeted areas.

Covid-19 has made suggestions around jobs and economic transformation more urgent. There is a crucial role for transformation policies, such as industrial, skills, trade and financial policies, in both the now-for-now support and the now-for-later support.

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Contents

Acronyms

CPF	Country Partnership Framework
DFID	UK Department for International Development
ICSID	International Centre for Settlement of Investment Disputes
ICT	information and communication technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
JET	Jobs and Economic Transformation
LIC	low-income country
MIGA	Multilateral Investment Guarantee Agency
MTR	mid-term review
OEM	original equipment manufacturer
OneWB	One World Bank
PPE	personal protective equipment
R&D	research and development
RMS	results measurement system
UK	United Kingdom
UNECA	United Nations Economic Commission for Africa
US	United States
WB	World Bank
WBG	World Bank Group

Executive summary

This report examines donor support (such as by the World Bank Group (WBG)) to measure and collaborate effectively for jobs and economic transformation. The central conclusion is that the WBG should focus more strongly on the structural change component of economic transformation and consider the role of targeted actions around sectors within this. It should also collaborate more effectively within its own ranks to coordinate a range of measures around targeted areas. Helping countries transform their economies and create jobs by combining a range of measures has become only more important in dealing with and recovering from Covid-19.

These conclusions are based on three key observations and policy suggestions:

1. **Coordinated actions around competitive sector activities are crucial to promote economic transformation.** We examine how economic transformation happens by looking at successful transformation experiences at country and sector level. The evidence suggests that a range of factors come together to enable the process of transformation, with much dynamism happening at the sector level. It further suggests that interventions at sector level, coordinated around a targeted set of activities, in a politically smart way and set in a competitive framework, can be an important driver of economic transformation. Targeting specific sectors that have strong basic conditions for competitiveness and where political economy factors are not going to be strongly detrimental is critical. The development of specific competitive sectors has been key to dynamic growth periods and hence to long-term transformation, even in countries where wider aspects of economic governance have not improved. This implies it is possible to develop dynamic, competitive sectors even when broader conditions in the economy are unfavourable. This insight has implications for actors looking to support economic transformation.

2. **The WBG should improve its measurement system for economic transformation and its internal incentives to cluster support around a number of targeted areas.** An analysis of the measurement system used by the WBG suggests that it can be improved and this could be done during the IDA19 period. For example, it could improve the ratio of economic transformation components in country partnership frameworks (CPFs), with CPF interventions focusing 70% of Jobs and

Economic Transformation (JET) interventions on within-sector productivity change and 30% on structural change. This would mirror the historical decomposition of labour productivity growth in low-income countries in the past three decades (and not less than 10%, as currently appears to be the case). It can also improve results management system (RMS) indicators by adding (i) structural change objectives and quantitative indicators on shifts across sectors and employment; (ii) sectoral productivity objectives and quantitative indicators in at least the three core sectors (agriculture, manufacturing, services); (iii) diversification of production or trade of products or services within and across sectors; and (iv) clearer linkages of the largest CPF projects (e.g. energy, transport) to productive sectors. Finally, it should include a clear narrative around how a CPF implements economic transformation by satisfying the RMS indicators.

We also analyse collaboration between the International Finance Corporation (IFC) and the World Bank (WB) within the WBG. It provides solutions to some problems that are limiting effective collaboration. For example, global practices could be reorganised more strongly around countries (and sectors within a country) with clearer incentives to collaborate. The other main conclusion is that diagnostics need to lead more strongly to IFC investment commitments in specific sectors around which the WB can coordinate its technical assistance efforts. Such a targeted sector approach is consistent with previous successful experiences of economic transformation.

3. **Covid-19 has made suggestions around jobs and economic transformation more urgent.** The Covid-19 pandemic has had a major impact on the world economy, with devastating effects for developing countries, including for jobs and transformation patterns. An active economic transformation policy to recover better from the crisis is crucial. An economic policy response framework to soften the impact of the crisis on economic development (‘now for now’) and to enhance the recovery (‘now for later’) includes general enabling and targeted policies. In this framework, there is a crucial role for transformation policies, such as industrial, skills, trade and financial policies, in both the now-for-now support and the now-for-later support.

   While the rationale for private sector support seems obvious, and developed countries have included this at the forefront of their economic stimulus packages, developing countries cannot afford it on a sufficient scale. Many donor responses have focused more on public sector interventions while paying less attention to private sector-oriented solutions. If Africa’s private sector is not helped to meet its financing needs, there may be no companies left to lead the recovery when the pandemic is over. This risks and challenges affect not only Africa but also the whole of the global economy – and donors should support African firms and

their workers. This requires a coordinated approach, targeted around sectors.

1 Introduction

Jobs and economic transformation are increasingly key pillars of national strategies and the development agenda of support organisation such as the World Bank Group (WBG), which is grouping of institution such as the World Bank (WB) and the International Finance Corporation (IFC). The African Union 2063 agenda, launched in 2013, for example, focuses on Africa's transformation. The WB introduced Jobs and Economic Transformation (JET) for the first time as a core objective of the 18th Replenishment of the International Development Association (IDA18) (WBG, 2019). This continued in IDA19 with a commitment to put more emphasis on the measurement of JET and becoming a better coordinated institution.

This report summarises an ODI–UK Department for International Development (DFID) partnership on JET that has focused on how donors such as the WBG can better measure and target JET and work better and more collaboratively to promote further economic transformation.

The recent outbreak and consequences of the Covid-19 pandemic have provided an additional rationale for the JET agenda. Only a transformed economy with a strong private sector can promote more resilient growth – that is, withstand shocks and crises while also creating jobs and supporting livelihoods. But transformation is not easy to achieve. Lemma (2020) argues that the promotion of economic transformation is a long-term process and requires a range of general enabling and targeted factors to come together. No single organisation or actor can do this: institutions and entrepreneurs needs to act together. It is crucial that support agencies such as the WBG work collaboratively to promote JET.

ODI has undertaken a number of analyses to examine this area. Initial analysis suggested that African countries faced considerable consequences of COVID-19, and that, while poor countries were constrained fiscally, they could respond through monetary policies (Papadavid and Velde, 2020). The International Monetary Fund (IMF) and the WB announced additional support measures (including through the IFC) but gave insufficient attention to saving private sector jobs and economic transformation efforts (Bilal et al., 2020). It is thus important to consider what more organisations such as the WB can do in this regard.

We have also conducted a series of analyses of how the WBG operationalises the measurement of its JET objectives through country strategies and what else can be done in the future (Raga, 2019). In addition, we have undertaken a range of discussions with senior officials in the WBG at headquarters and in country offices to understand how the WB and the IFC work together around JET and what potential exists to build on this.

This report brings these analyses together. It focuses on the case of the WBG, one of the institutions implementing the JET agenda, to understand how internal coordination and measurement systems have supported JET work. It makes a number of broad proposals that the WBG could explore further to work more effectively around JET.

This study is structured as follows. Section 2 discusses how economic transformation happens, reviewing pathways followed by different countries. Sections 3 and 4 examine how the WBG collaborates (especially internally) and measures JET. Section 5 considers the impact of Covid-19 on JET and brings together the findings of Sections 3 and 4 in the context of the pandemic. Section 6 concludes.

2 How does economic transformation actually happen?

This section examines how economic transformation happens by looking at successful transformers at country level (Section 2.1) and successful experiences at sector level (Section 2.2). The evidence suggests a range of factors come together to enable the process of transformation, with much dynamism happening at the sector level.

2.1 Economic transformation pathways: country experiences

Lemma (2020) examines the factors and triggers behind economic transformation by using a standard conceptual framework of economic transformation (McMillan et al., 2017) and applying this to case studies that illustrate various successful aspects of economic transformation, in Bangladesh, China, Mauritius, South Korea, Sri Lanka and Vietnam. The analysis compares countries on several measures, using data from high-quality sources and with a 'developing country' average to indicate how these six countries have been successful transformers.

Lemma finds that economic transformation is an iterative, long-term process that requires constant support, attention and change. It can be triggered by events and contextual factors but can also be a result of deliberate action. Pull and push factors that facilitate economic transformation for each country are country-specific. These factors are likely a combination of internal (e.g. government policy, internal conflict) and external (e.g. regional conflict, changes in trade agreements) issues pushing a country further along its economic transformation pathway.

The triggers, at the country level, are context-specific, but we can divide them into three broad areas: (i) triggers, (ii) enablers and (iii) policies.

Triggers are the events that kick-start the transformative process:

- **Shock events:** Several economic transformation processes (e.g. a military coup in South Korea or Doi Moi reforms in Vietnam) began as a result of what could be defined as 'shock

events', which triggered changes in either political or economic circumstances, leading to a chain reaction within the country.

- **External influences:** Countries may begin the reform process by taking advantage of beneficial external conditions, or be influenced by external agents of change, public or private (e.g. the end of trade preferences for sugar or garments in Mauritius).
- **Planned change:** The process of reform may be triggered by deliberate political decisions that set a country out on the pathway to economic transformation, for example through five-year development plans (in Vietnam or China).

Enablers are the factors that sustain the transformative process:

- **Strong government:** The drive to reform a country requires a strong, capable government (e.g. China, South Korea, Vietnam) with a capable civil service that can pursue its development vision effectively.
- **Capable civil servants:** A significant number of economic transformation processes have been successful thanks to strong capacity in government institutions (e.g. in Mauritius) – that is, to base policy choices on reputable knowledge and expertise.
- **State–business relations:** Ensuring that private enterprise is part of the reform process helps government support transformative sectors that have growth potential.
- **Entrepreneurship:** The entrepreneurial capabilities of a country's private sector can influence its transformative trajectory (e.g. garment entrepreneurs in Sri Lanka and Bangladesh).
- **Labour force:** The composition of a country's labour force can be an important driver of the economic transformation process.
    - ***Labour supply:*** Transformative sectors require workers; initial stage transformative sectors such as lower-value manufacturing benefit from an existing abundant labour force (e.g. in China).
    - ***Labour costs:*** Lower labour costs attract foreign direct investment into labour-intensive manufacturing sectors, promoting the growth of such sectors (e.g. Bangladesh).
    - ***Labour skills:*** Where labour is skilled, it can promote growth sectors (information and communication technology, ICT, in Sri Lanka).

Policy shapes the transformative process:

- **Policy support:** Government policy support is fundamental to promote the economic transformation process.
    - ***General support:*** Transformative countries give general public policy support to foster the economic

transformation process (economic liberalisation in Vietnam through Doi Moi).
    - ***Targeted support:*** Transformative countries have also made use of targeted public policy support to develop specific, transformative sectors within their economy (export support in Korea or special economic zones in China)
- **Privatisation:** In parallel with internationalisation, most economic transformation reforms see a process of privatisation – particularly in centrally controlled countries.
- **Manufacturing:** All case study countries underwent economic transformation by promoting their manufacturing sector.
- **Internationalisation:** Case study countries exhibited one common trait – the internationalisation of their economy.
- **Education and research and development (R&D):** The countries that have continued to sustain economic transformation are those that have invested in their capability to innovate.

These triggers often work in conjunction. Pragmatism is important in order to control the pace and outcome of transformative change. As a part of the transformative process, the manufacturing sector is critical, but it is not the end game, and countries that have exhibited sustained transformation have moved not just from agriculture into manufacturing but also into high-value services. Expertise in government is fundamental to promote change that is not diluted by populist politics, as well as an understanding that long-term economic transformation relies on building up local labour force skills, education levels and R&D capabilities.

Finally, Lemma finds that **sequencing matters**. The case study countries show that transformation occurs through a sequence of events. The process usually begins with a ‘shock’ that alters the in-country dynamics, allowing more progressive governments to begin a planning process, accompanied by a strengthening of government capabilities and laying down the foundations for a more competitive labour force (education, skills). Countries initially targeted export-oriented manufacturing through small-scale initiatives such as special economic zones, later scaled up to the national level. In parallel, the foundations for future growth were laid through business environment reforms, the organisation of effective state–business relations and long-sighted investments in R&D. These bases, combined with government adaptability, were fundamental to high-growth countries sustaining the transformation process, as they made it possible to move into high-technology goods and high-value services.

2.2 Economic transformation pathways: sector experiences

Much of the dynamism behind economic transformation actually happens at the sector level. To describe and explain sectoral transformation patterns, Balchin et al (2019) examine six experiences of **successful sector transformation**: air transport and logistics services in Ethiopia; the automotive industry in South Africa; the revival of the cocoa sector in Ghana; the staple food revolution in Indonesia; garments in Bangladesh; and sector-based strategies in Mauritius. It also considers five cases where sectors did not transform or where a promising initial transformation was not sustained. These cases of relative failure are cashew nuts in Mozambique; pineapples in Ghana; maize subsidies in Malawi in the years 2005–2008; President Kikwete's rice initiative in Tanzania; and Malaysia's faltering manufacturing sector.

The analysis argues that it is important to **identify economic opportunities** correctly (e.g. successful identification of market access advantages for Bangladeshi garments; opportunities to serve Asian markets through Ethiopian air transport services; supply opportunities in South Africa presented by the global sourcing strategies of original equipment manufacturers, OEMs) but that this alone is not enough.

Positive sector dynamics also have **positive political-economic relations**. This has varied from centralised economic planning enabling state-led development of an airline in Ethiopia, exceptional democratic unity post-apartheid or effective alignment of interests facilitated through dedicated sector-specific structures and support organisations around South Africa's automotive industries, to the development of a consensus view across elites and the wider public and private sectors around a strategic direction for the Mauritian economy.

In the failed or disappointing experiences, these relations soured over time, or were weak or entirely absent. In Mozambique, there was a lack of consensus among different actors about necessary reforms in the cashew nut sector. In Ghana, there was little government interest in pineapple production, leaving pioneer investors in the sector to attempt, ultimately in vain, to address the growing infrastructure and learning requirements of remaining internationally competitive. Similarly, the maize sector in Malawi suffered from weakening political support. In Malaysia, dissolving political conditions after the Asian financial crisis and the politics of ethnicity undermined attempts to improve manufacturing performance.

In several of the successful cases, favourable balances of political and economic interests supported transformation because they resulted in **credible commitments to investors**. In Ghana, this took the form of cross-party political support for the cocoa sector, and the key sectoral institution. In Mauritius, high-level political backing for a consensus view on the desired future direction of the economy was

important. In Ethiopia, state investments in air transport were backed by a long-term policy vision designed by a regime that is relatively secure. In South Africa, multi-year policy visions provided a credible platform for long-term planning in the automotive sector. Technically proficient planning and macroeconomic management provided a predictable investment environment for staple agriculture in Indonesia. In Bangladesh, credible commitments came externally in the form of clear international commitments providing market access for Bangladeshi garments.

In failures, such commitments were typically uncertain, undermining investor confidence. For example, the government's credibility in the case of cashews in Mozambique was undermined by poor communication, the perception that the policy reforms were WB-driven and the knowledge that processing could be profitable only with government protection. In Tanzania, the power of food-importing businesses undermined the credibility of the presidential rice initiative and the East African Community's tariff rules. Political changes in Malaysia removed support for export processing zones and undermined the credibility of investment incentives.

The success cases often included **reasonably good provision of public goods**. This ranged from coordinated public infrastructure investments in Ethiopia and investments in the construction of automotive industrial parks and targeted transport infrastructure in South Africa, to major investments in rural public works in Indonesia and improved telecommunications and power in Bangladesh and Mauritius. In Ghana, the development of quality control systems helped maintain the international price advantage of domestically produced cocoa.

The absence of adequate public goods provision, or related support, was almost always one of the proximate causes in the cases of relative failure. For instance, poor rural roads and weak extension services affected the maize sector in Malawi, while failure on the part of district governments to maintain medium-size irrigation works hampered the presidential rice initiative in Tanzania.

In the successful cases, specific efforts were made to tackle **investment coordination problems**. In Ethiopia, there was coordination and sequencing of investment in public infrastructure alongside the airline's own capital investment in key areas such as cargo and maintenance facilities. The South African government devised well-coordinated policies – including import duty credits and productive asset allowances – for subsidising investment in exporting cars. The Indonesian government had a well-staffed national planning agency, which handled the coordination issues surrounding the uptake of improved rice and the utilisation of oil revenues in an effective way. There was some coordination among garment firms in Bangladesh, for example to capture spillovers from firm-level learning

and establish strong links between education institutes and the private sector.

In failures, unsolved coordination problems had deleterious effects. For instance, little effort was made to coordinate investments to boost raw cashew nut production after export liberalisation in Mozambique. In Ghana, there was a lack of coordinated investment in post-harvest handling and other infrastructure to support pineapple production.

In certain success cases, **support was provided to investors, and sometimes directed to specific first-mover firms**. For example, tax incentives available to all investors and tariffs helped attract OEMs to South Africa, and similar incentives had the effect of attracting foreign investors to export zones in Malaysia. Support was provided to first-mover firms in Bangladesh's garment sector, and to whole sectors through targeted support for innovation in Mauritius.

In the failure cases, support was often provided and then withdrawn. In Mozambique, the government removed export restrictions without investing in firm capabilities. In Malawi, subsidies were not sustained long enough, or supported with sufficient complementary measures, to pull off a profitability breakthrough.

And, finally, what matters about the political economy may be a temporary configuration, **a moment of unusual opportunity** – and it is also likely to be sector-specific. Transformation breakthroughs can and do occur in systemic contexts that are generally unfavourable. This places a premium on the ability to identify moments and sectors of opportunity in a timely fashion. Given the high level of uncertainty that must accompany such judgements, this also points to the importance of having the flexibility to recognise initial errors and change course when necessary.

In conclusion, this review of sector transformation in 11 African and Asian cases shows how sector dynamics depend crucially on:

- correct identification of the economic opportunities
- conducive political-economic conditions at the sector level
- credible commitments to investors
- reasonably good provision of public goods
- specific efforts to tackle investment coordination problems and
- taking advantage of a moment of unusual opportunity.

The evidence in the above sector cases shows **that interventions at sector level, coordinated around a targeted set of activities, in a politically smart way and set in a competitive framework, can be an important driver of economic transformation.** Targeting specific sectors that have strong basic conditions for competitiveness and where political economy factors are not going to be strongly detrimental is critical. The development of specific competitive sectors has been key to dynamic growth periods and hence to long-term transformation, even in countries where wider aspects of

economic governance have not improved. This implies it is possible to develop dynamic, competitive sectors even when broader conditions in the economy are unfavourable. **This insight has implications for actors looking to support economic transformation.**

3 Measuring World Bank Group support for Jobs and Economic Transformation

Having discussed some of the basic economic transformation processes and factors behind them, we should also understand how organisations that desire to support jobs and economic transformation can measure it. To monitor and measure the JET content in country partnership frameworks (CPFs), the WB has introduced four economic transformation indicators[1] in the IDA18 results measurement system (RMS). The IDA18 mid-term review (MTR) awarded six out of eight CPFs a transformation tag. The IDA Deputies and Borrowers call for a strengthened role of the JET special theme under the IDA19, and this offers scope to reflect on the appropriateness of these RMS indicators.

Raga (2019) assesses the extent to which the recent CPFs of Benin, Burkina Faso, Guinea, Mauritania, Moldova, Nicaragua, Niger and Tanzania prioritise economic transformation.[2] The paper also reviews and provides suggestions on ways to improve the IDA18 RMS indicators on economic transformation. The analysis further includes a complementary examination of economic transformation content of active IDA project portfolios in Benin and Tanzania from 2015 to 2019. The project-level analysis can also serve as an indicator of the WB effort in pushing the economic transformation theme over time, especially after the IDA18. The paper concludes by offering suggestions on how the WB can improve the focus on and reporting around IDA projects for economic transformation and job creation.

Following an assessment of prioritisation of economic transformation content in CPFs, we find that, except for Moldova, all CPFs reflect structural change, sectoral productivity and diversification of production or trade in their strategic objectives. However, the bulk of these objectives and corresponding interventions focus on increasing

[1] The current RMS methodology in use by the WB indicates that a CPF underpins economic transformation if at least one of the following is present in the CPF: (i) sectoral productivity; (ii) value chain expansion; (iii) increased productive capital stock or investment in energy, transport, manufacturing or services; and (iv) export sector output/value added, trade facilitation.

[2] Countries examined in the IDA18 MTR, where six (Benin, Burkina Faso, Guinea, Niger, Mauritania and Tanzania) out of eight countries' CPFs were assessed to have incorporated economic transformation.

agricultural productivity. The importance of agriculture as a channel of economic transformation is reflected in the sector's allocations in total CPF financing programmes, whereby the shares of explicit agricultural projects range from 9% to 37% in six countries.[3] Seven out of eight CPFs refer to poverty reduction as a motivation behind objectives relating to economic transformation, while only half of the CPFs explicitly cite activities that aim to transform their respective country's employment structure.

By examining the CPF results framework, it emerges that seven out of eight CPFs include several quantitative measures of sectoral productivity, while only two contain quantitative indicators for structural change. Across eight CPFs, quantitative indicators for diversification are insufficient, if not absent.

Based on a simultaneous assessment of economic transformation of CPFs using the IDA18 RMS methodology, the current RMS indicators are insufficient in providing either a broad or an in-depth measurement of economic transformation prioritisation in country strategies. For example, one RMS indicator includes increasing productive capital stock or investment in energy, transport, manufacturing or services. In seven of eight countries, there are ongoing/planned energy projects and, based on this criterion alone, the RMS could have tagged these countries for economic transformation even if the project is focusing on expansion (e.g. increasing capacity or access to electricity) rather than transformation (e.g. supplying for the energy demand of targeted productive sectors).

Benin and Tanzania's project portfolios mirror the results of CPF analysis. Only three out of the 34 project information documents (9% in terms of number, 8% in terms of value) incorporate objectives or components for structural change. Most projects with economic transformation content are concentrated on the agriculture sector and there have been no projects focusing on higher-productivity sectors, particularly manufacturing and services industries, since 2015. We also find that a relatively large share of projects (69%) aim to develop *pathways* to economic transformation, and there is a need to strongly link these *pathways* projects ('inputs' to economic transformation) to productivity ('output' of economic transformation). From pre-IDA18 to the post-IDA18 period, the number of projects aiming for structural change and diversification remains relatively low (and decreased in Benin post-IDA18).

Overall, the projects in Tanzania and Benin are significantly aiming for sectoral productivity growth, which may be connected to the focus of WB performance indicators (e.g. CPF results framework and RMS

[3] Guinea has the largest share of agriculture-related projects to total CPF financing, at 37%, followed by Burkina Faso (27%), Nicaragua (26%), Benin (18%), Mauritania (11%) and Niger (9%). In Tanzania, the energy sector alone has a 19% share in total CPF lending. Given substantial political instability risk in Moldova, more than 70% of the total CPF lending programme is dedicated to improving economic and service governance.

indicators) and WB's comparative advantage. It is noted that economic transformation is well cited in project objectives, but almost entirely through within-sector productivity change. This trend in project objectives and components may have been driven partly by (i) CPFs lacking quantitative indicators for structural change and a good number of indicators for sectoral productivity; and (ii) IDA18 RMS indicators for sectoral productivity and other pathways to economic transformation.

All the eight CPFs cite the WB's comparative advantage as one of the selectivity filters shaping them; only three CPFs (Burkina Faso, Benin, Nicaragua) include the IDA18 special theme as a selectivity filter. If selectivity in the CPF priorities are heavily guided by WB's comparative advantage in specific sectors, this project-level analysis may also be reflecting the WB's comparative advantage in projects that aim for sectoral, but not inter-sectoral, productivity (structural change). This implies the need to increase capital and expertise on other elements of economic transformation such as structural change and diversification of production.

There is little evidence in the literature on the appropriate 'balance' or 'ratio' of sectoral productivity and structural change interventions that countries can undertake to stimulate economic transformation. However, by observing the decomposition of labour productivity growth in 180 countries from 1991 to 2017, we find that within-sector productivity change is significantly more important in higher income economies than in in low-income countries (LICs). Within-sector productivity change and structural change (between sectors) contribute 30% and 70%, respectively, to total labour productivity growth. In East Asia and Pacific, where some countries have successfully transformed, this ratio is at 20% and 80%.

The analysis has a range of implications for improvement for development partners aiming to support the JET agenda post-Covid-19:

- Improve the ratio of economic transformation components in CPFs. We suggest that CPF interventions focus 70% of JET interventions in LICs on within-sector productivity change and 30% on structural change, mirroring the historical decomposition of labour productivity growth in LICs in the past three decades (and not less than 10%, as currently appears to be the case).
- Improve RMS indicators by adding (i) structural change objectives and quantitative indicators on shifts across sectors and employment; (ii) sectoral productivity objectives and quantitative indicators in at least the three core sectors (agriculture, manufacturing, services); (iii) diversification of production or trade of products or services within and across sectors; and (iv) clearer linkages of the largest CPF projects (e.g. energy, transport) to productive sectors.

- Include a clear narrative around how a CPF implements economic transformation by satisfying the RMS indicators. The narratives may include at least (but not limited to) the following details:
    - rationale for prioritising sectoral productivity over structural change (or vice versa). This may include considerations of country's factor endowments, bottlenecks and opportunities
    - identification of the channels through which the CPF interventions can increase productivity in areas of comparative advantage while nurturing links (or shifting) to higher-productivity or value-adding activities
    - justification on the necessity of pathways to economic transformation (e.g. energy, infrastructure, human capital) and direct links on how these will enable sector and/or labour productivity and
    - interventions in creating higher-productivity/-income jobs.
- Include an assessment at project level for selected projects. To assess the WBG's effort in translating country strategies on economic transformation into actual projects through time, we recommend conducting a periodic review of transformational content of active project portfolio in selected IDA countries. This can be based on selected projects and should include a narrative on how a project contributes to economic transformation, especially components of economic transformation such as structural change that tend to be underemphasised in both the CPF and project designs.
- Explicitly link sectoral and structural change – core elements of economic transformation – in the JET framework approach. Apart from in the agriculture sector, it is less clear how the policy commitments under the JET framework will target both sectoral and structural change within IDA countries. In addition, given the greater role attached to private investments under the proposed JET approach, it is critical to ensure that private investments are channelled to strategic (vs. profitable) sectors for economic transformation. The quality and direction of the investment is often more important than the amount of private sector finance mobilised.

4 Collaborating effectively: One World Bank to support Jobs and Economic Transformation

Effective collaboration among agencies, institutions and other actors is required to make meaningful progress along the path of economic transformation and job creation. This view is shared by the WBG.[4] The work of the WBG is driven by the 'twin goals' of ending extreme poverty and promoting shared prosperity (WB, 2015). The delivery of these goals benefits from coordination among the various parts of the WBG.

Within the WBG, much attention is paid to effective collaboration for JET. The Development Committee Communiqué of the WB/IMF Annual Meetings 2019 (October) supported coordination and urged action within the WBG to support institutional development and governance reforms; create markets and jobs; spur private investment; reduce barriers to creating businesses; address labour demand and supply constraints; enhance opportunities for women and youth; expand regional projects and collaboration; and leverage regional integration and South–South cooperation. It urged management to mainstream and operationalise this agenda, drawing on lessons from past successes (WB and IMF, 2019).

In order to promote collaboration, the WBG adopted the One World Bank (OneWB) approach. Included in the WBG's October 2013 strategy, this approach envisages increasing collaboration right across the WBG (IEG, 2017). This approach aims to bring together the International Bank for Reconstruction and Development (IBRD)/IDA's extensive understanding of development issues and partnerships with public sector actors, with the IFC and Multilateral

[4] Five institutions form the WBG: the International Bank for Reconstruction and Development (IBRD), lending to the government of middle-income countries and creditworthy LICs; the International Development Association (IDA), providing interest-free loans (or credits) and grants to governments of the poorest countries; the International Finance Corporation (IFC), the largest global development institution focused exclusively on the private sector; the Multilateral Investment Guarantee Agency (MIGA), created in 1988 to promote foreign direct investment into developing countries; and the International Centre for Settlement of Investment Disputes (ICSID), providing international facilities for conciliation and arbitration of investment disputes (WB, 2016). In this study, when referring to the WBG, we mean the five institutions of the WBG, or most often the main four, excluding ICSID; when referring to the WB we mean IDA/IBRD.

Investment Guarantee Agency's (MIGA's) grasp of the investment climate and ability to mobilise private sector funds. It aims to mobilise the strengths of the various parts of the WBG to support the JET agenda.

The OneWB approach plays at various levels: globally, with the shift to matrix management structure, bringing IBRD/IDA and IFC staff to work together thematically; and also at the country level, with diagnostic tools such as the new Systematic Country Diagnostic, and programmatic tools such as the Country Partnership Framework aiming to mainstream institutional collaboration. The collaboration has also taken place under joint projects, as illustrated in Independent Evaluation Group (IEG) (2017). While we might expect that the most typical form of collaboration is one where the WB provides advisory services to 'prepare the ground' for IFC private sector work, in reality there exist various arrangements, as Table 1 illustrates. One example is the Private Sector Window, under which the WB (IDA) provides finance but individual projects are often managed by the IFC.

Table 1 WB collaboration – illustrative examples

	IFC advisory services	IFC finance
WB (IDA/IBRD), advisory services	Joint advisory services occur in 15–20% of all IFC advisory services*	Jordan airport
WB (IDA/IBRD), finance	Private Sector Window	20 out of 400 IFC projects are joint with WBG, or 5%*

Note: * World Bank (2013)
Source: Authors' elaboration

Three main features form the rationale for this collaboration: complementarity among WBG institutions; commonality of development challenges faced, countries or types of clients; and comparative advantage of the institutions, where each can bring its strengths to the partnership (IEG, 2017). Fostering WBG synergies and collaboration is essential in fulfilling the OneWB approach. The benefits of a joined-up approach include efficient de-risking, support to pioneer investments and potentially improved management of complex cross-border projects. More collaboration is not an aim in itself but it can improve the design and implementation of projects and raise wider societal impacts.

ODI has worked to understand the potential criteria that are required for large organisations such as the WBG to foster effective collaboration in support of the JET agenda. Based on a review of the literature and several interviews with development experts and practitioners, including World Bank staff and experts at headquarters and in the field, we have identified four main dimensions fostering effective collaboration. We discuss these using the WBG as an example, though these equally apply to complex organisations (or groups of organisations) involved in promoting the JET agenda, in particular those with both private and public sector components, such as DFID and the CDC Group or the German Development Corporation and DEG.

The dimensions for collaborations are:

- **Aligned incentives.** The WB and the IFC speak to different audiences (public sector and private sector). They also respond to different incentives: roughly speaking, the IDA/IBRD is evaluated against the provision of global public goods and the IFC measures its success based on return on investment. Collaboration is effective when these two sets of incentives are aligned around a project or a process.
- **Aligned commitments.** The WB and IFC collaborate effectively when their commitments are aligned. The collaboration at the broad sectoral level is set in documents like the CPF, setting medium-term plans for both institutions. In practice, however, good collaboration

happens when the WB and IFC can focus their efforts on projects that are aligned (e.g. power sector reform and investment in energy distribution networks). This can also be prompted by commitment from leadership to put in place joint work in certain countries and sectors.

- **Effective internal cooperation** among WBG staff. This includes cooperation between headquarters and country offices; and within the country offices, among global practices staff and country teams. This includes the ability to bridge sophisticated technical expertise provided by the global practices with the countries' needs.
- **Ability to develop effective external relationships** with country stakeholders, at both national and subnational level, in the public and private sector.

Our analysis and interviews covered a range of issues, not all of which are addressed here. Amongst the views on the WB expressed by the IFC and other agencies included

- lack of trust in WB effectiveness in reform crucial for making investment projects happen
- a view that WB diagnostics are not sufficiently guiding investment projects
- confusion about whom to liaise with in global practices
- different incentives, with the IFC's mainly around investment deals and
- different reporting lines, although top-down management matters.

Views on the IFC by the WB and other agencies included the following:

- failure by IFC how the IFC contributes to shared prosperity
- no strategy or set of clear commitments around which to work
- different incentives and
- different reporting lines.

Table 2 presents some of solutions to the problems that are limiting effective collaboration. For example, the global practices could be reorganised more around countries (and sectors within a country) with clearer incentives to collaborate (in particular in the cascade approach, for example). The other main conclusion is that diagnostics need to lead more strongly to IFC investment commitments in specific sectors around which the WB can coordinate its efforts.

Table 2 WB collaboration – illustrative examples

	Problems	Solutions
People, individuals and incentives	Reporting lines IFC and WB are different organisations Individuals at institutions aiming for fee earning loans	Reorganise global practices towards country autonomy (current move seems to be good) that facilitates collaboration Consider incentives from the top, e.g. why not have one chief executive? Or one strong country director? Cascade remains an issue but the creating markets agenda is promising (as it fosters joint thinking and collaborative strategising)
Structures, practices and institutions	Diagnostics do involve collaborations but what is the evidence that these lead to (joint/coordinated) projects?	Make diagnostics/strategies shorter but more binding (e.g. very short public documents that guide the IFC into certain type of activities/sectors and the WB into providing technical assistance around regulatory reform and other transformation support around selected sectors Monitor impact of private sector diagnostics

5 How does Covid-19 affect support for Jobs and Economic Transformation

The Covid-19 pandemic has had a major impact on the world economy, with devastating effects on developing countries, including in terms of jobs and transformation patterns (Section 5.1). An active economic transformation policy to recover better from the crisis is crucial (Section 5.2). This provides renewed impetus for the JET agenda in donor agencies such as the WBG (Section 5.3)

5.1 Covid-19 and jobs and economic transformation

A range of early studies suggests substantial costs ranging, from around 5–8% of gross domestic product, in sub-Saharan Africa. These effects work through losses in terms of earning from commodities and services exports (Mendez-Parra, 2020a, 2020b) and capital flows (Papadavid and te Velde, 2020). Different sectors are affected differently, meaning that, not only are there substantial negative growth effects, but also there will be negative and potentially long-lasting impacts on transformation if engines of transformation falter.

The Philippines provides an insightful example. The lockdown in the Philippines not only led to the loss of millions of jobs but also pushed those who remained employed towards lower-productivity agriculture and informal sector work. To preserve the existing skills necessary for economic transformation, there needs to be a conscious effort to ensure that those who have been laid off in high-productivity sectors such as manufacturing can return to similar employment.

The unemployment rate in the Philippines reached a record high of 17.7% in April 2020, or 7.3 million. Labour force participation among those aged 15 years and older had declined to a historic low of 55.6%, and average hours per week had dropped to 35 hours from 41.8 in April 2019. Among those employed, more than a third (38%) were not at work, and a third (32%) were in part-time employment (Philippine Statistics Authority, 2020).

This negative impact on aggregate employment indicators highlights the consequences of the economic and labour market shutdown following the lockdown. The data and trends discussed in Box 1 highlight the impact of Covid-19 on economic transformation in Philippines. The box shows how the pandemic has ‘reversed’ the economic transformation process by promoting a shift in the employment share towards agriculture, the informal sector, less skilled occupations and rural employment.

At the same time, the pandemic highlights the importance of building resilient and diversified economic systems that can better weather similar challenges. Countries relying on primary commodities or services such as tourism may have limited options and fiscal space to recover from the crisis (Raga and te Velde, 2020a).

The pandemic has exposed some flaws in the current economic model, based on an international division of labour and global value chains. Demand for certain goods and services has collapsed, and production has suffered and in many cases stopped altogether. Already started after the financial crisis, the trend towards shortening of value chains may intensify in response to the pandemic (Keane, 2020). All these changes require a stronger emphasis on a more resilient economic model, in line with the JET agenda.

Box 1: Employment, structural transformation and Covid-19 in the Philippines

The latest employment data from the Philippines show that a larger share of workers have been pushed towards agriculture and the informal sector. The agriculture sector's share in total employment had increased by more than 4 percentage points to 26% in April 2020 from 22% in April 2019, while the shares of industry and services had declined by 2 percentage points, to 17% and 57%, respectively. Within the industry sector, the combined share of employment in manufacturing and construction in total employment had fallen by more than 2 percentage points, with 2.3 million fewer workers in these sectors during the month compared with pre-Covid-19 April 2019.

The share of relatively high-skilled professions has declined. While the lockdown has negatively affected the number of employees in all types of occupation, the share in total employment of those employed as managers, technicians, associate professionals (e.g. bookkeepers, interior designers, medical representatives, human resource and marketing assistants), plant and machine operators and assemblers, and services and sales workers has declined compared with April 2019. Meanwhile, the share of workers engaged in relatively low-productivity jobs such as elementary occupations and skilled agricultural, forestry and fishery work has increased by 1.5 and 2.6 percentage points, respectively.

Wage and salary workers in the private sector have been more affected during the lockdown. By class of worker, the share in total employment of jobs with a relatively stable income in the private sector had fallen by 2.4 percentage points to 47.9% in April 2020 from 50.2%, indicating a decline of 4.8 million workers in private establishments during the month compared with April 2019. Meanwhile, the share of wage workers in households and self-employed and unpaid family workers in total employment had gone up by 2 percentage points in April 2020 compared with same month in 2019.

Most of the unemployed during the lockdown were those without, or with a low level of, educational attainment, highlighting the need for upskilling to increase job security in times of crisis. The share in total unemployment during the lockdown in April of those with no educational grade completed or who have obtained only elementary and junior high school education had risen by 12 percentage points to 64% compared with April 2019. Notably, those who have obtained senior high school to graduate education have witnessed a fall in unemployment in terms of share and absolute number.

Unemployment has been more prevalent in rural areas during the pandemic, reflecting fragility of rural employment. The national unemployment rate as of April 2020 is 17.7%, but the rate is lower in Metro Manila (capital), at 12%, and higher outside the capital (average across regions), at 19%. In contrast, last April 2019, Metro Manila had a relatively higher share of unemployment (6.3%) than did the non-capital regions (4.8%).

Source: Raga (2020)

5.2 An active economic transformation agenda in the Covid-19 recovery

Public policies play a crucial role in fostering a more resilient and better future. Policies can help create jobs, restore exports, improve value addition, industrialise and possibly produce more for the local markets. It is crucial that firms respond quickly to seize future opportunities. Public actions can help by setting rules and regulation, streamlining trade and, above all, solving market and coordination failures, investing in appropriate and good-quality public goods such as skills and infrastructure and providing liquidity.

To ensure a fast recovery, the health policy response needs to be effective, both nationally and globally. It is crucial to prevent the spread of the pandemic, socially distance and test and trace. A more effective health response will improve trust and restore confidence in the economy. The private sector cannot operate in any normal way if the virus is still spreading with risks of contagion. This may take time but it is essential.

Table 3 provides a framework for economic policy response to soften the impact of the crisis on economic development (‘now for now’) and to enhance the recovery (‘now for later’). There are general enabling and targeted policies, building on the framework in McMilllan et al. (2017). There is a crucial role for transformation policies such as industrial, skills, trade and financial policies, in both the now-for-now support and the now-for-later support.

Table 3 Economic policy responses to Covid-19 – a framework

	General enabling	**Targeted**
Now for now (immediate support to address consequences now/ shielding/protecting)	**Fiscal:** General tax deferrals, furloughing, general health spending **External debt:** Debt restructuring **Monetary loosening:** Lower reserve ratios, lower interest rates, bond buying, flexible exchange rates **Trade:** Safe trade	**Fiscal:** Targeted wage subsidies, targeted retooling, other targeted social protection/food security **Monetary:** Banking/ development finance institute liquidity for transformative/ exporting firms **Industrial:** Sector rescues
Now for later (immediate support to prepare for a better future)	Digital infrastructure Business environment Trade facilitation Innovation systems Domestic resource mobilisation Expenditure frameworks Private and financial sector development	**Fiscal:** Green investment **Trade:** Resilient value chains, local production **Industrial:** Sector transformation (including ICT), local industrialisation, investment promotion

		Financial policy: Targeted restructuring, targeted finance **Skills:** Targeted skills development especially ICT

Source: te Velde (2020)

Fiscal and monetary policies. An immediate policy response to the crisis has been to use fiscal and monetary policies. Fiscal policies have been constrained in low-income settings but monetary policies have been faster to emerge. Central banks are increasingly focused on supporting growth in a countercyclical framework, which is a positive trend. Several governments have also supported their private sector, protecting firms so they do not need to sell assets and fire workers.

Trade policy and supporting value chains. Trade facilitation is both a crucial now-for-now and now-for-later policy in Table 3. The effects of Covid-19 on trade are devastating: imports through Mombasa fell by 20% between January and February 2020, daily truck traffic reduced by 65% in the year to April 2020 and transit times increased by 60% (TradeMark East Africa, 2020). The pandemic response has led to severe regulatory challenges: different countries have different testing procedures and testing takes time, as there is often no local capacity available. This has resulted in delays such as a 66 km trucker queue in Malaba. Thus, facilitating cross-border trade is a must for business, small and large, formal and informal. A further immediate need is to support operation of value chains through appropriate value chain finance, removal of trade barriers, including a ban on export restrictions, and assistance for workers.

Economic transformation and industrial policy. Protecting transformative firms and their workers comes at a premium now. Such firms, often large, technology-intensive exporters, have wider spillover effects on the wider domestic economy. If they are not supported during a crisis, they may not survive to pull the recovery. It is important to support clusters of firms, as such networks lead to technology spillover among firms. There is a risk that whole clusters or zone may not survive the crisis, such as those that depend on garments exports to the US (under the Africa Growth and Opportunity Act) and whose orders have dried up. Only some manage to produce personal protective equipment (PPE).

5.3 How does Covid-19 affect the OneWB JET work and its measurement?

While the rationale for private sector support seems obvious, and developed countries have included this at the forefront of their

economic stimulus packages, developing countries cannot afford them on a sufficient scale. Many donor responses have had some bias towards public sector interventions, paying less attention to private sector-oriented solutions. The United Nations Commission for East Africa (UNECA) (2020b) argues that Africa's private sector needs support through the economic stimulus of the respective countries, for example through tax breaks to prevent firms collapsing and to help them maintain jobs as well as to be able to earn an export revenue in the recovery. Without a way for the African private sector to meet its financing needs, there may be no companies left to lead the recovery when the pandemic is over. This risk and challenge for Africa also affects the whole of the global economy, and donors should support African firms and their workers. **This requires a coordinated approach, targeted around sectors.**

The Covid-19 pandemic has highlighted the importance of pursuing the JET agenda and, thus, to continue strengthening collaboration to this end. As mentioned by the WB itself, 'the IFC is providing $8 billion in financing to help private companies affected by the pandemic and preserve jobs. IBRD and IDA are making an initial US$6 billion available for the health-response' (WB, 2020a). However, this is not sufficient, and it also does not clarify whether and how the support will be coordinated.

Collaboration involving private sector support could have a beneficial effect. Take the example of the ready-made garment sector: with disruption in the supply chain, the sector has experienced challenging times as a consequence of the pandemic. On the other hand, there has been much discussion around retooling towards PPE and other goods that were in short supply during the pandemic (McVey and te Velde, 2020). Joint public–private action could have the benefit of safeguarding livelihoods of garment workers, providing government revenues and foreign exchange. With their ability to mobilise both the public and the private sector, the **WB and the IFC could use their complementary skills to support this process at sector level, which is where much of the economic transformation dynamics is seen** (Section 2).

We consider whether Covid-19 has incentivised, or can incentivise, further collaboration under the four dimensions discussed: aligned incentives, aligned commitments, internal cooperation and effective external relationships.

As for the **aligned incentives**, both individual and institutional, these depend on the reward structure of the WBG. While these may not have changed during the pandemic, they certainly still point towards the twin goals of ending extreme poverty and ensuring shared prosperity.

Aligned commitments are easier to identify. Some evidence of this has already emerged. For instance, for Africa, the WB website points to micro, small and medium-sized enterprise programmes, public

works programmes and support to the private sector (the latter provided by the IFC) (WB, 2020b). However, it is not clear whether these programmes will be implemented collaboratively or split among the different agencies. Though we can see aligned commitments, these need to be implemented through **effective internal cooperation** between various functions and offices of the WBG. This is again difficult to monitor but externally there is little evidence that the pandemic has strengthened these processes.

Finally, successfully implementing a JET agenda in response to Covid-19 requires that the WBG develop **effective external relationships** with country stakeholders, in the public and private sectors. Here, it would be important to consider how the private and public sector collaboration is critical. For instance, IBRD/IDA could assist governments in designing measures to support the private sector; and the IFC could support the private sector to provide the goods and services (e.g. medical devices, PPE, food products) that the government may have challenges sourcing. This points towards **developing collaborative action plans to target sector transformation.**

Covid-19 may also provide opportunities to revise **measurement of the JET agenda**. Previous sections have already shown some of the shortcomings of the previous measurement and tracking systems, with little attention paid to structural change. This may also indicate that productivity within sectors has been given more weight, compared with economic diversification. However, the pandemic has shown that a diversified and more complex economy could have allowed low- and middle-income countries to reduce the negative effects of the pandemic. This makes even more urgent the need to include structural change among the indicators to be monitored. Additional indicators, explicitly targeting economic resilience and a quality and health workforce, could be added to the current system. These could entail explicit support to the creation of formal (and, as such, more stable, at least in theory) jobs, and reference to safety nets for workers; and could also explicitly track the support to resilient value chains.

6 Conclusions and policy suggestions

This report has examined donor support, such as from the WBG, to measuring and collaborating effectively for jobs and economic transformation. It makes three key observations and policy suggestions.

Section 2 argues that coordinated actions around competitive sector activities are crucial to promote economic transformation. We examine how economic transformation happens by looking at successful transformers at country and sector levels. The evidence suggests that a range of factors come together to enable the process of transformation, with much dynamism at the sector level. It further suggests that interventions at sector level, coordinated around a targeted set of activities, in a politically smart way and set in a competitive framework, can be an important driver of economic transformation. Targeting specific sectors that have strong basic conditions for competitiveness and where political economy factors are not going to be strongly detrimental is critical. The development of specific competitive sectors has been key to dynamic growth periods and hence to long-term transformation, even in countries where wider aspects of economic governance have not improved. This implies it is possible to develop dynamic, competitive sectors even when broader conditions in the economy are unfavourable. This insight has implications for actors looking to support economic transformation.

Sections 3 and 4 argue that the WBG should improve its measurement system for economic transformation and its internal incentives to cluster support around a number of targeted areas. The analysis in Section 4 of the measurement system used by the WBG suggests it should be improved during the IDA19 period. For example, it could change the ratio of economic transformation components in CPFs, with CPF interventions focusing 70% of JET interventions on within-sector productivity change and 30% on structural change, mirroring the historical decomposition of labour productivity growth in LICs in the past three decades (and not less than 10% as currently appears to be the case). It can also improve RMS indicators by adding (i) structural change objectives and quantitative indicators on shifts across sectors and employment; (ii) sectoral productivity objectives and quantitative indicators in at

least the three core sectors (agriculture, manufacturing, services); (iii) diversification of production or trade of products or services within and across sectors; and (iv) clearer linkages of the largest CPF projects (e.g. energy, transport) to productive sectors. Finally, it should include a clear narrative around how a CPF implements economic transformation by satisfying the RMS indicators.

Section 5 analyses collaboration between the IFC and the WB within the WBG, providing solutions to some problems that are limiting effective collaboration. For example, global practices could be reorganised more strongly around countries (and sectors within a country) with clearer incentives to collaborate. The other main conclusion is that diagnostics need to lead more strongly to IFC investment commitments in specific sectors around which the WB can coordinate its technical assistance efforts. Such a targeted sector approach is consistent with previous successful experiences of economic transformation.

Covid-19 makes the above suggestions around jobs and economic transformation more urgent (Section 6). The pandemic has had a major impact on the world economy, with devastating effects for developing countries, including for jobs and transformation patterns. An active economic transformation policy to recover better from the crisis is crucial. An economic policy response framework to soften the impact of the crisis on economic development (‘now for now’) and to enhance the recovery (‘now for later’) includes general enabling and targeted policies, In this framework, there is a crucial role for transformation policies such as industrial, skills, trade and financial policies, in both the now-for-now and the now-for-later support.

While the rationale for private sector support seems obvious, and developed countries have included this at the forefront of their economic stimulus packages, developing countries cannot afford them on a sufficient scale. Many donor responses have had some bias towards public sector interventions while paying less attention to private sector-oriented solutions. If not help is given to Africa’s private sector to meet its financing needs, there may be no companies left to lead the recovery when the pandemic is over. This risk and challenge for Africa also affects the whole of the global economy and donors should support African firms and their workers. This requires a coordinated approach, targeted around sectors.

The above three areas support the central conclusion of this paper, that the WBG should focus more strongly on the structural change component of economic transformation and considering the role of targeted actions around sector within this, and should collaborate more effectively within itself to coordinate a range of measures around targeted areas. Helping countries transform their economies and create jobs by combining a range of measures has become only more important in dealing with and recovering from Covid-19.

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