

# Supply chains and backward linkages



**European Bank**  
for Reconstruction and Development

EBRD Evaluation department

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**EBRD projects often target transition impact by “extending markets” through direct or indirect positive effects on supply chains and backward linkages. This study evaluates a sample of relevant projects assessing how and in what circumstances supply chains and backward linkages are integrated into project design and the performance observed against objectives as stated.**

## About the study

EBRD projects often target transition impact by “extending markets” through direct or indirect positive effects on supply chains and backward linkages. These features exist almost exclusively in food retail and automotive projects and become the main or sole expected source of expected transition impact.

This evaluation:

- Examines a sample of 16 such projects, across 9 countries;
- Assesses how and in what circumstances supply chain and backward linkage elements are integrated into project design and performance observed against stated objectives;
- Identifies significant shortcomings in key aspects of the EBRD’s approach and application;
- Recommends specific measures to strengthen both.

## Main findings

- **The EBRD lacks a clearly articulated strategy** on how to approach supply chains and backward linkages systematically. There is neither a broad conceptual framework nor specific guidelines against which to assess and structure such components at the project level, and to implement and monitor those included.
- **Inconsistent treatment across sector and country strategies:** only the agribusiness sector strategy mentions supply chains and backward linkages, and then in only general terms; several country strategies make only passing reference to supply chain issues.



- **Objectives limited almost exclusively to quantitative benchmarks** targeting only the number or share of local suppliers; qualitative benchmarks often poorly defined.
- **Project design** Issues include: uneven and often insufficient analysis of sector conditions; weak or absent discussion of causal links between supply chain and backward linkage benchmarks and project activities; unrealistic expectations about effects on supply chains and backward linkages given the structural and business realities or relationships with suppliers; and, imprecise baseline data.
- **Demonstrated effects:** The flow of relevant and useful data on effects on supply chains and backward linkages was insufficient in all but a few cases, often reflecting lack of client awareness of the objectives set for their projects, absence of adequate recordkeeping, and lack of assigned responsibility for monitoring and reporting.

## Food retail

- **Limited evidence of behavioural or qualitative changes** among local suppliers through EBRD projects. Large supermarket chain clients work mainly with a few large pre-existing, and well-established local suppliers.
- **Supermarkets unenthusiastic about providing structured training to local suppliers**—relationships tend to be short-term and transactional. Provision of ad hoc advice and periodic audits preferred and more effective.
- **Suppliers tend to be consolidated through supermarket chain expansion projects** which strengthen their negotiating power relative to suppliers.
- **Poor infrastructure** a major hurdle to more procurement from local suppliers in less advanced countries (for example they needed better storage, or adequate road infrastructure) although infrastructure considerations rarely figure in project design or analysis.

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## Automotive findings

- **Transfer of research and development:** While references to “R&D transfer” were often-cited supply chain and backward linkage components, little genuine such transfer is observed. However in some cases, advanced process engineering was transferred.
- **Quality issues:** Vehicle producers and their higher tier suppliers generally meet high quality standards; therefore, purely quantitative targets for local supplier participation may also capture key quality issues.
- **Sourcing own suppliers:** Appearance parts producers had very little flexibility in sourcing their own suppliers as most were designated by their original equipment manufacturer clients and many were foreign-owned.

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## Recommendations

1. Produce clear operational guidelines on how to identify, structure, implement and monitor the effectiveness of supply chain and backward linkage components where they are intended to contribute to the performance of specific Bank projects. Guidelines should clearly set out all necessary process and accountability issues.
2. Projects targeting supply chain and backward linkage improvements as transition drivers should include these specifically in their results framework, clearly identifying appropriate and measurable outcome objectives, baseline data and interim benchmarks, and setting out how effective monitoring will be accomplished.
3. When sector and country strategies identify supply chain and backward linkage related transition issues and opportunities as a justification for Bank operations, these should be incorporated clearly into their results frameworks and reasonable clarity provided as to the expected focus of operational efforts to address them.

4. Responsibilities for implementation of specific actions related to supply chain and backward linkage objectives, along with monitoring, data collection and reporting, and any related resource requirements should be explicitly agreed and captured in the project’s legal or other documentation.

For more information read the full report at: [www.ebrd.com/evaluation](http://www.ebrd.com/evaluation).

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