Review of Current Thinking on PSD – relating to service markets and Value Chains

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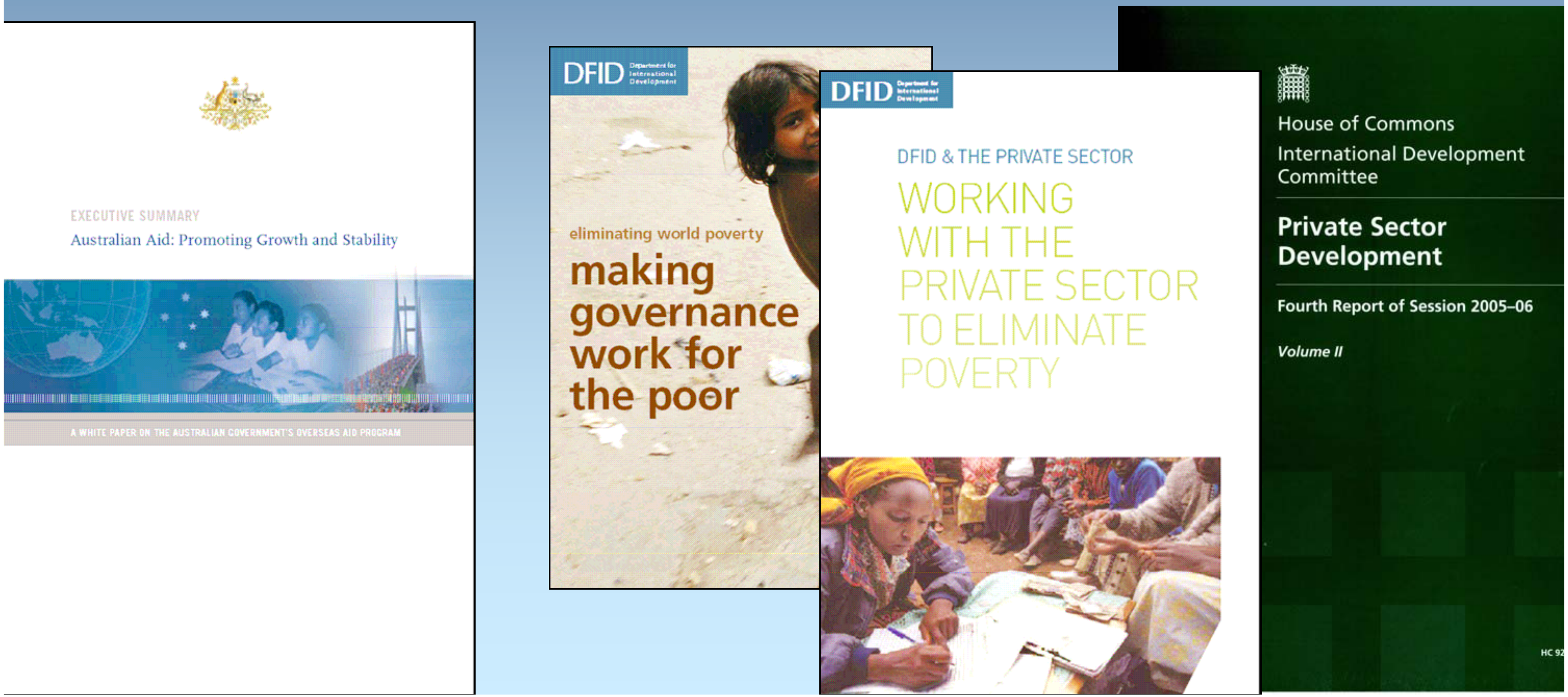
Outline

1) The good news for industry-specific practitioners (eg those working in SED, value chains, BDS etc.)
2) And the not-so-good news…
3) Why the changes in thinking?
4) Who wants what?
5) What should we be doing about it?
6) Future challenges

The good news #1

- Growing interest in PSD – eg OECD DAC, UK, AusAID
- Some have extensive references to SED – eg Commission for Africa



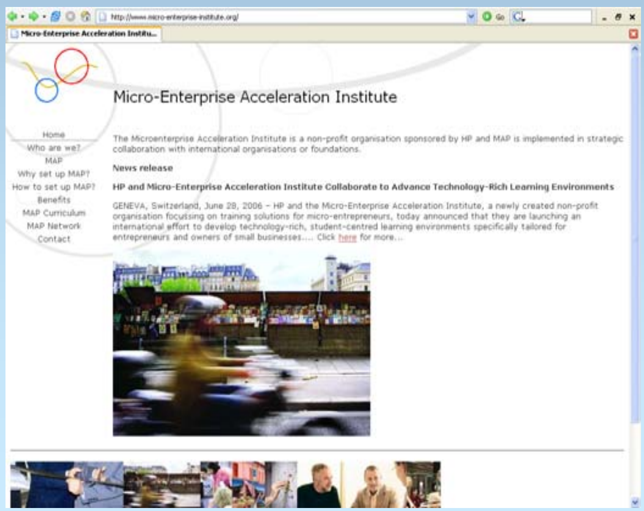
More good news

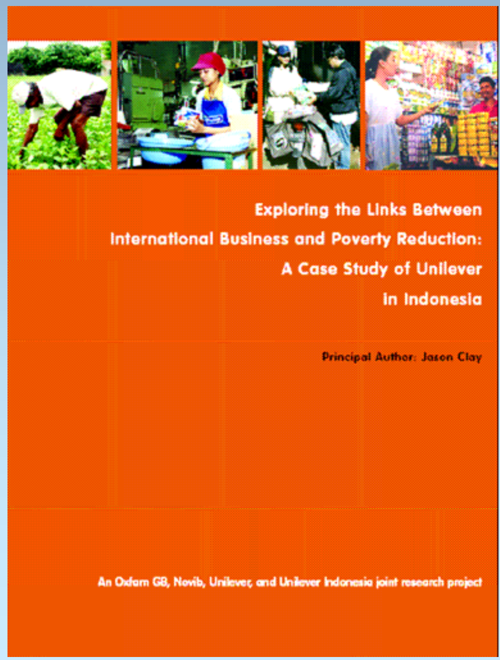
- Practitioners have embraced key principles of PSD and competitiveness
- New donors are emerging – eg Bill and Melinda Gates Foundation $30m on Value Chain development
- Emerging donors in E. Europe, elsewhere also believe PSD to be important
- Changing trade agreements, world markets can provoke strong demand for help from Governments, associations

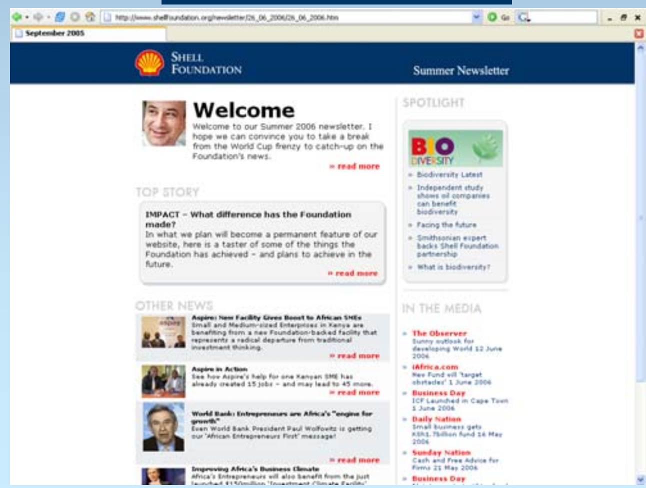
Even more good news

Larger companies are very interested:

- HP Micro-Enterprise Acceleration Institute
- Unilever / Oxfam joint study in Indonesia
- Shell, others funding Investment Climate Facility



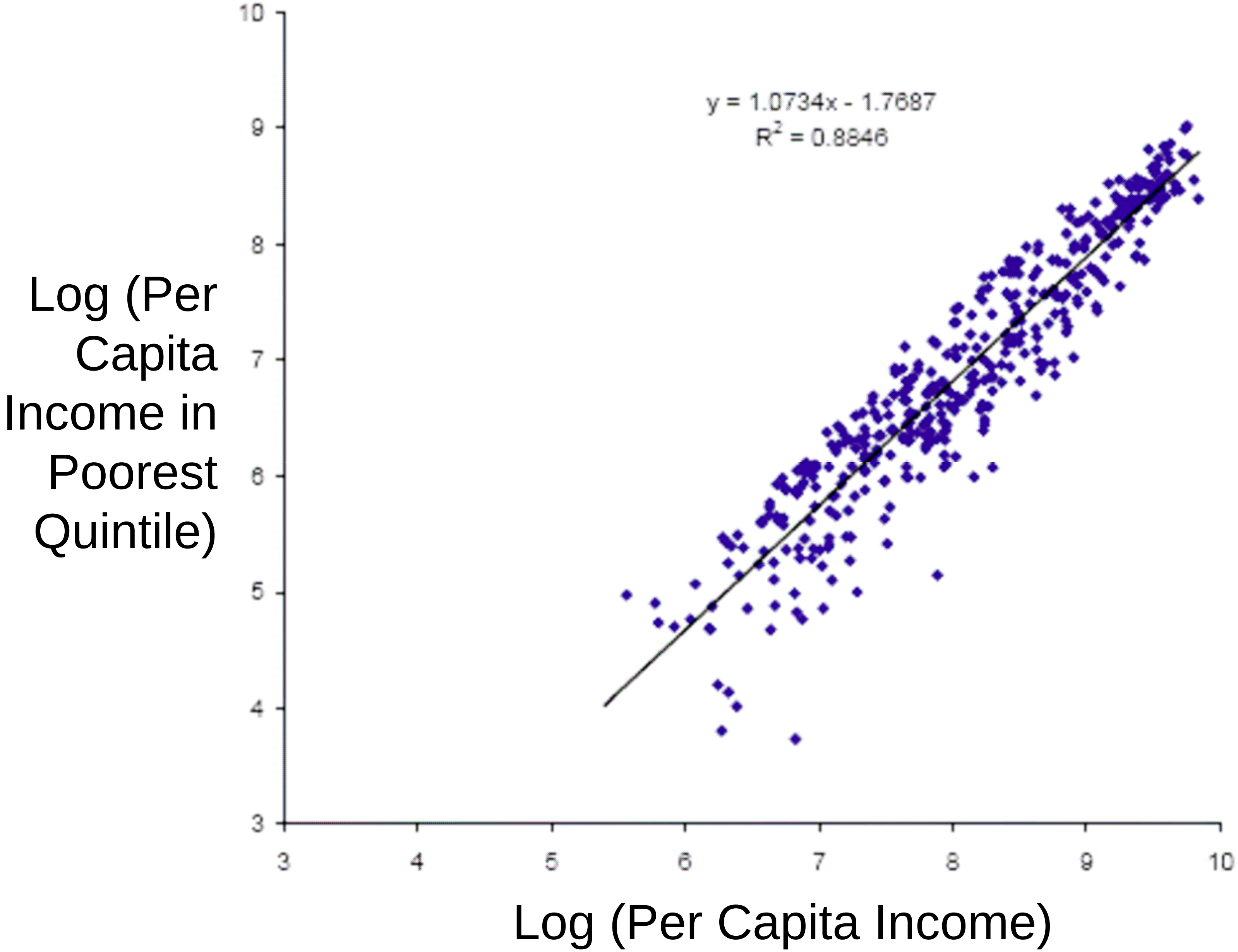




The not-so-good news #1

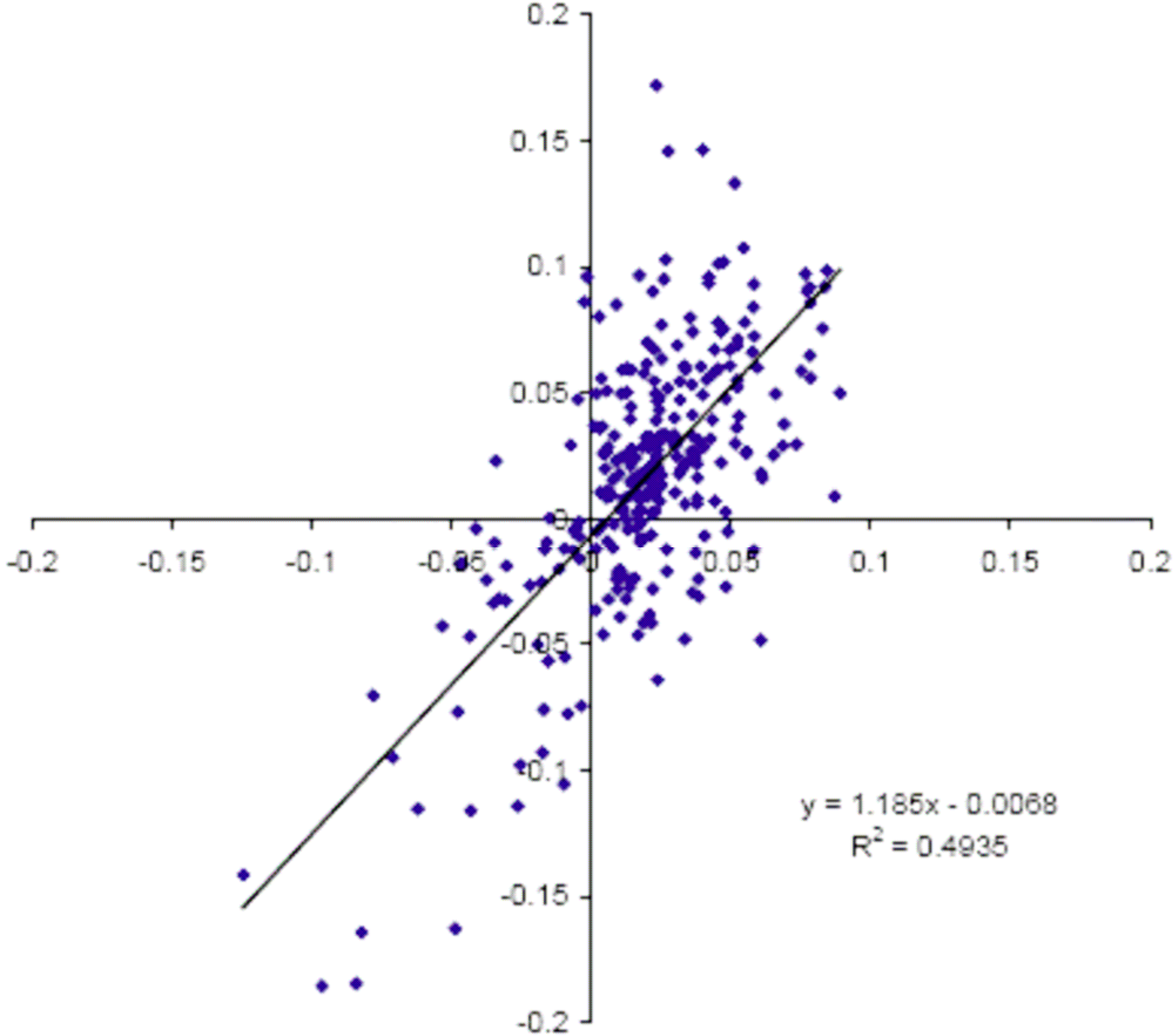
- Little attention to measuring impacts (or achieving scale), so donor ‘champions’ lack data they need
- Traditional interventions are often dressed up in progressive language
- Some recent evaluations have not been positive - targeted approaches are perceived to have mixed impacts
- A growing belief, strongly influenced by a few studies, that “all growth is good for the poor”

Shares of income (Dollar and Kraay 2001)



Changes in income (Dollar and Kraay 2001)

Average Annual Change in log (Per Capita Income in Poorest Quintile)



Average Annual Change in log (Per Capita Income)

Do Pro-SME Policies Work?

(Thorsten Beck *et al*, 2004)

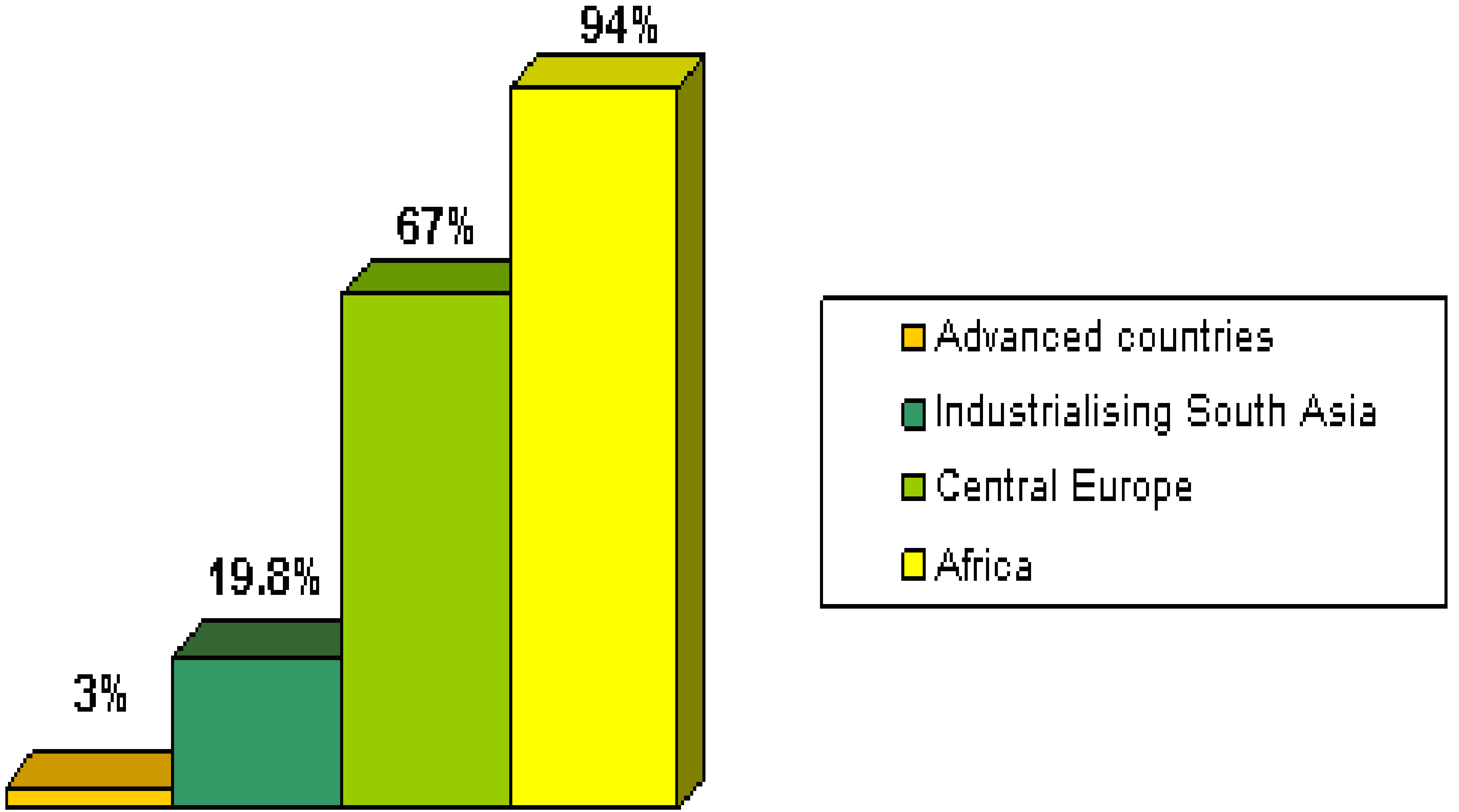
"… finds no support for the widely held belief that SMEs promote higher growth and lower poverty. But it does provide some support for the view that the quality of the business environment facing all firms, large and small, influences economic growth."

Beck *et al*: An influential paper

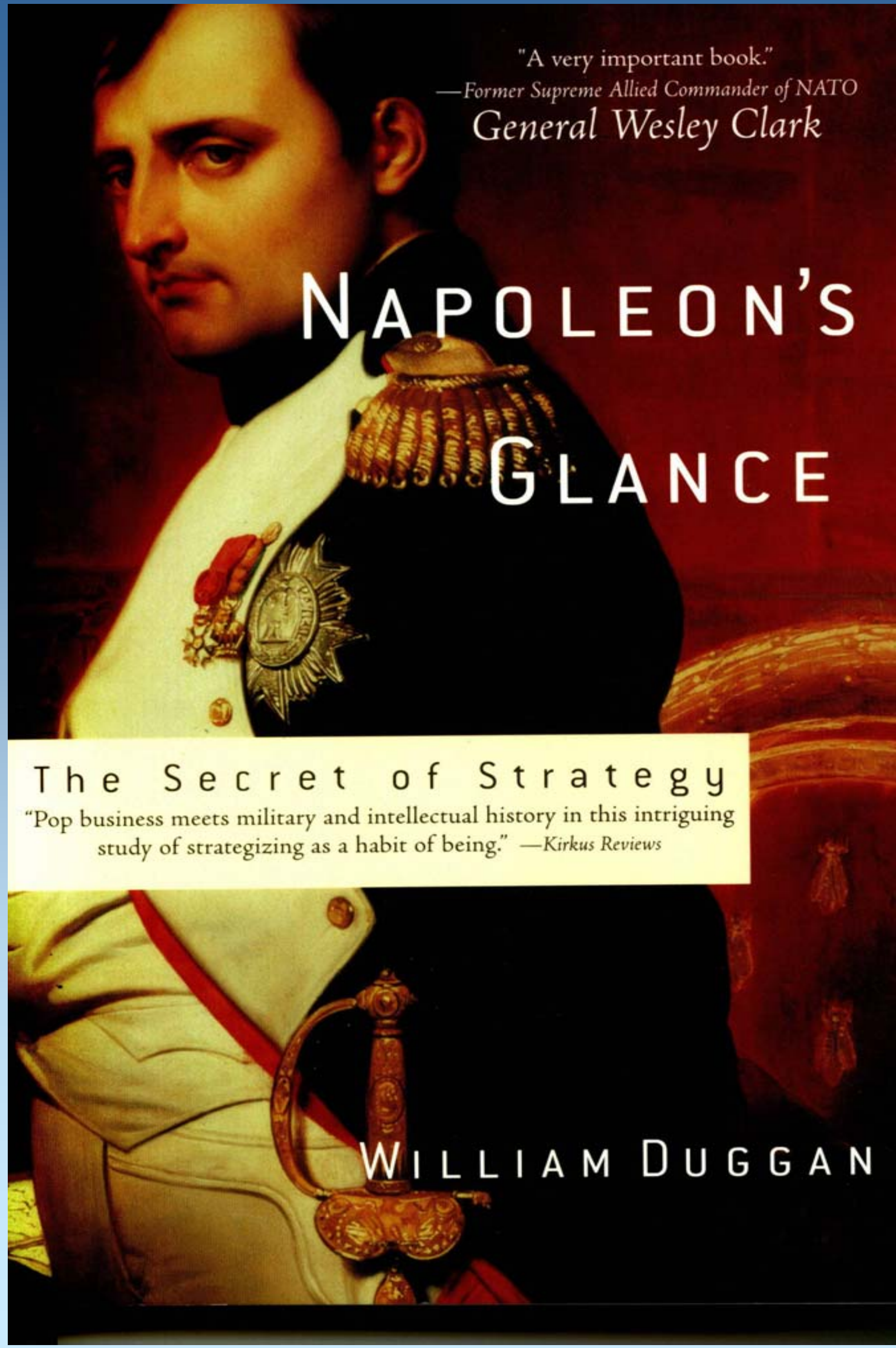
More not-so-good news

- Therefore, concern that targeted approaches are not effective, and may do more harm than good (perverse incentives etc.)
- Some confusion over the alternatives
- Trend towards budget support to recipient governments leaves multi-stakeholder PSD without obvious home
- Also trend toward reform of the overall business environment

Business entry costs as % of GDP/Capita (Bannock *et al*, 2002)

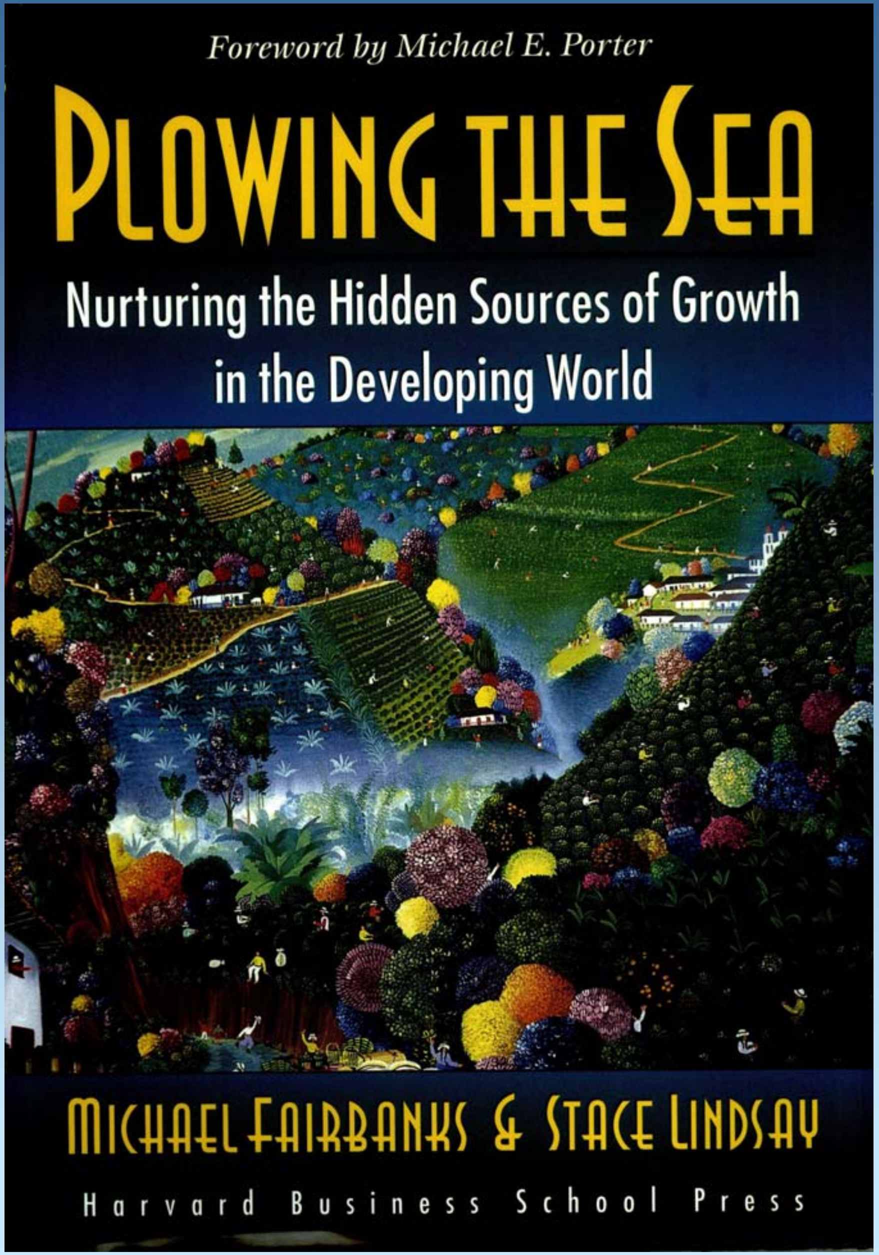


So – time to think strategically…



Where is the demand?

Several case studies from Latin America: up-grading value chains in response to local demand



Breaking the Seven Patterns of Uncompetitive Behaviour

- Avoid over-reliance on basic factors of advantage
- Improve understanding of customers
- Know your relative competitive position
- Know when and when not to forward integrate
- Improve inter-firm co-operation
- Overcome defensiveness
- Avoid paternalism

Source: Plowing the Sea, by Fairbanks and Lindsay, HBSP 1997

Other sources of demand

- From private companies, for matching grant schemes (PPPs, African Enterprise Challenge Fund etc.)
- From communities, via participatory approaches (LED, clusters etc.)
- From governments / associations, as a result of benchmarking?

Cost Per T-Shirt

	Source		Make		Deliver		
	Import Dependence	Raw Material Costs	Labor Cost /Shirt	Overheads	Outbound Logistics	Speed to Market	
Kenya (68)	~ 65%	$2.30	$0.40	$0.62	$0.28	> 30 Days	$3.60
Honduras (122)	~ 80%	$0.80	$0.25	$0.19	$0.06	< 15 days	$1.30

High Tariffs:
Honduras = 9.6%
Kenya = 21.9%

Impact of Rules of Origin
Exacerbated by location and therefore transportation costs

High Cost of Logistics
Honduras = $ 658 / TEU
Kenya = $1475 /TEU

Lengthy Customs Clearance for Imports:
Honduras = 4 days
Kenya = 15 days

Lower Wages Offset by Lower Labor Productivity

Honduras: $12/ labor day
Kenya: $9.40/ labor day

Honduras: 45-50 shirts/day
Kenya: 20-25 shirts/day

Lengthy Customs Clearance For Exports:
Honduras = 1 day
Kenya = 2 days

High Incidence of Rejects:
Honduras: <1%
Kenya: >3%

Source: Presentation by Uma Subramanian, FIAS, in Vienna to Donor Committee Working Group on Linkages and Value Chains, 2006

Value Chain Distribution of Costs Nigeria Wax Print Textile

Intermed inputs	Cap. Charge	Labor	Admin	Utilities	Inbound Logistics	Outbd Logistics	Profits
30.91	1.94	2.01	1.32	5.72	0.62	0.72	-4.68

Export subsidies

Cotton Yields, Kg/ha

World	600
Nigeria	180

Cotton Costs (US$/kg)	
Nigeria	1.27
Kyrgyz	0.32
China	0.59

Labor costs (US cents/hour)

Nigeria	92.3
India	40.6
S. Africa	222.0
Indonesia	34.3
China	57.0
Pakistan	38.8
Kenya	66.0

Ratio of mgmt cost to labor close to 1

Utility costs US cents/KWh

Nigeria	17.1
India	18.7
S.Africa	5.0
Indonesia	3.7
China	6.0
Pakistan	6.6
Kenya	7.0

High sourcing costs for dyes/chem imports

Delays resulting in capital carrying charges

Source: Presentation by Vincent Palmade and Uma Subramanian, FIAS, at Donor Committee Cairo Conference, 2005

Future challenges…

- Measuring and reporting credibly on impacts on poverty, and at scale
- Rapid response
- Finding and keeping the best people
- Moving from Capture to Competition
- Building markets in post-crisis situations, fragile states

You can influence the debate…

Thank you for your attention!

Any questions? Comments?