

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

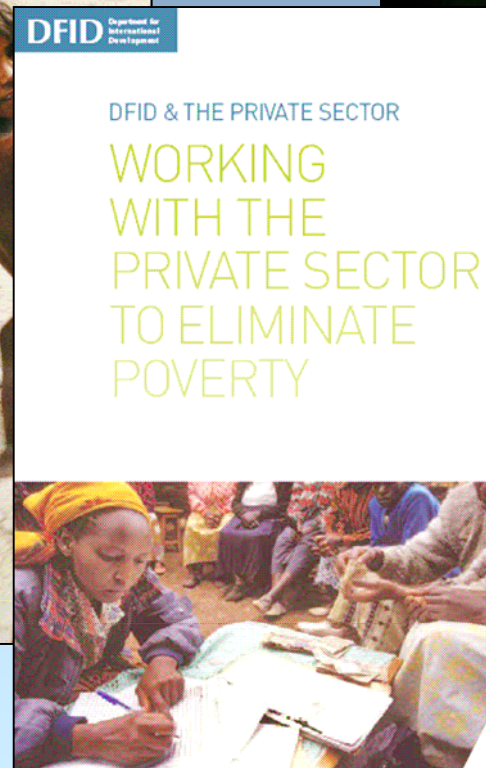
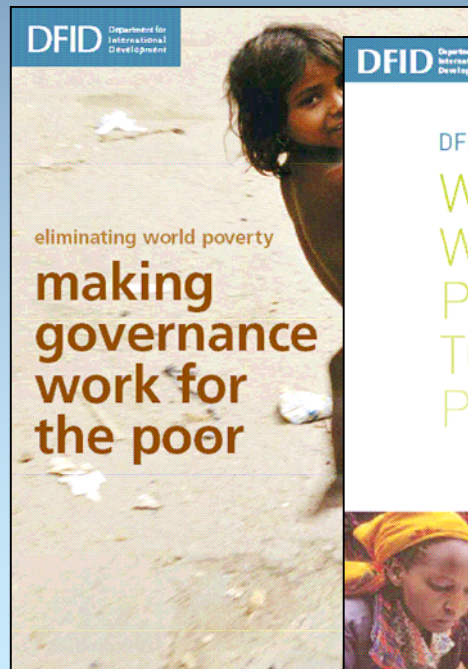
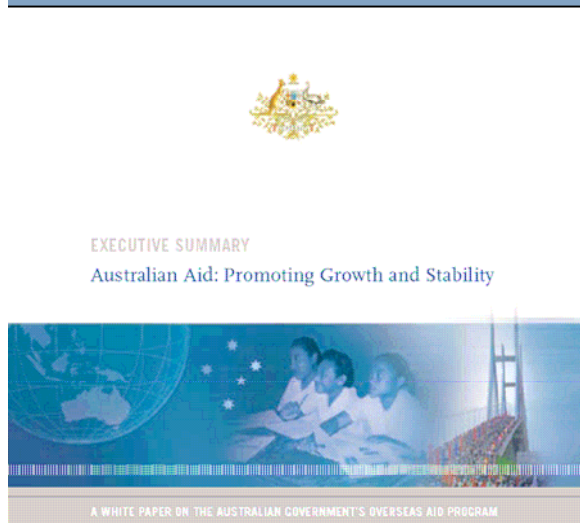
Jim Tanburn,
Chiang Mai,
22nd September 2006

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



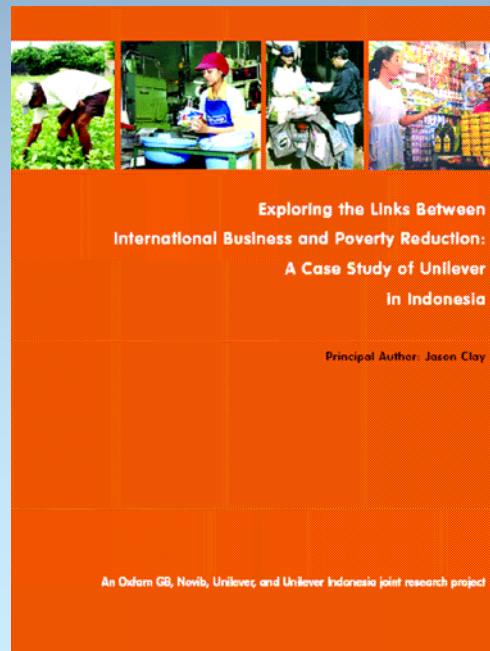
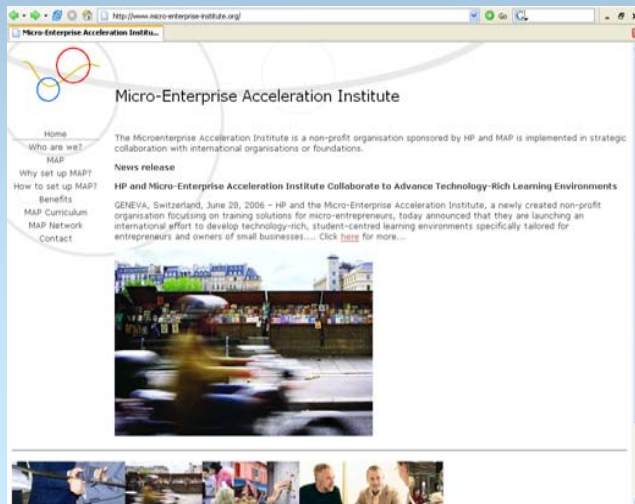
More good news

- 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:

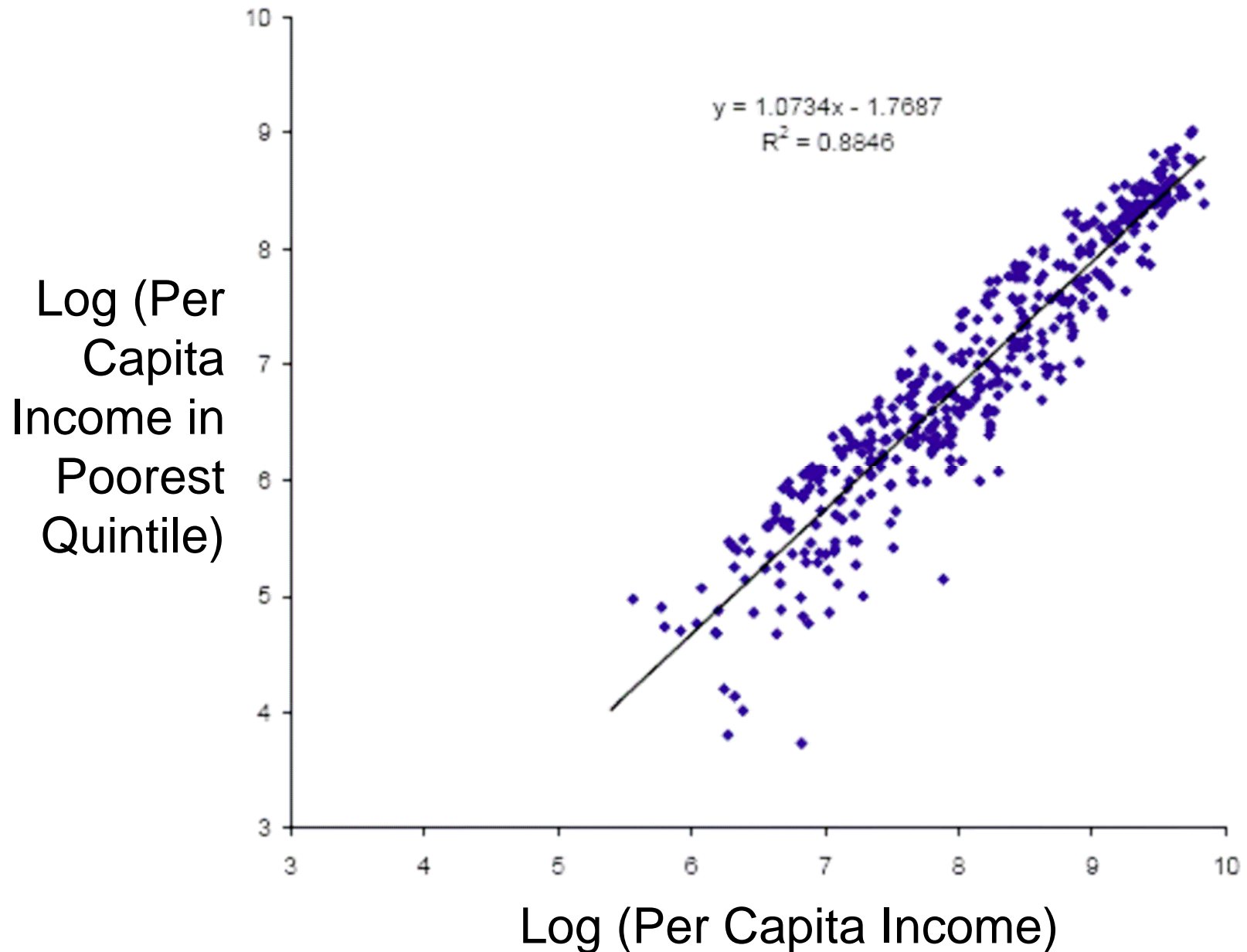
- HP Micro-Enterprise Acceleration Institute
- Unilever / Oxfam joint study in Indonesia
- Shell, others funding Investment Climate Facility



The not-so-good news #1

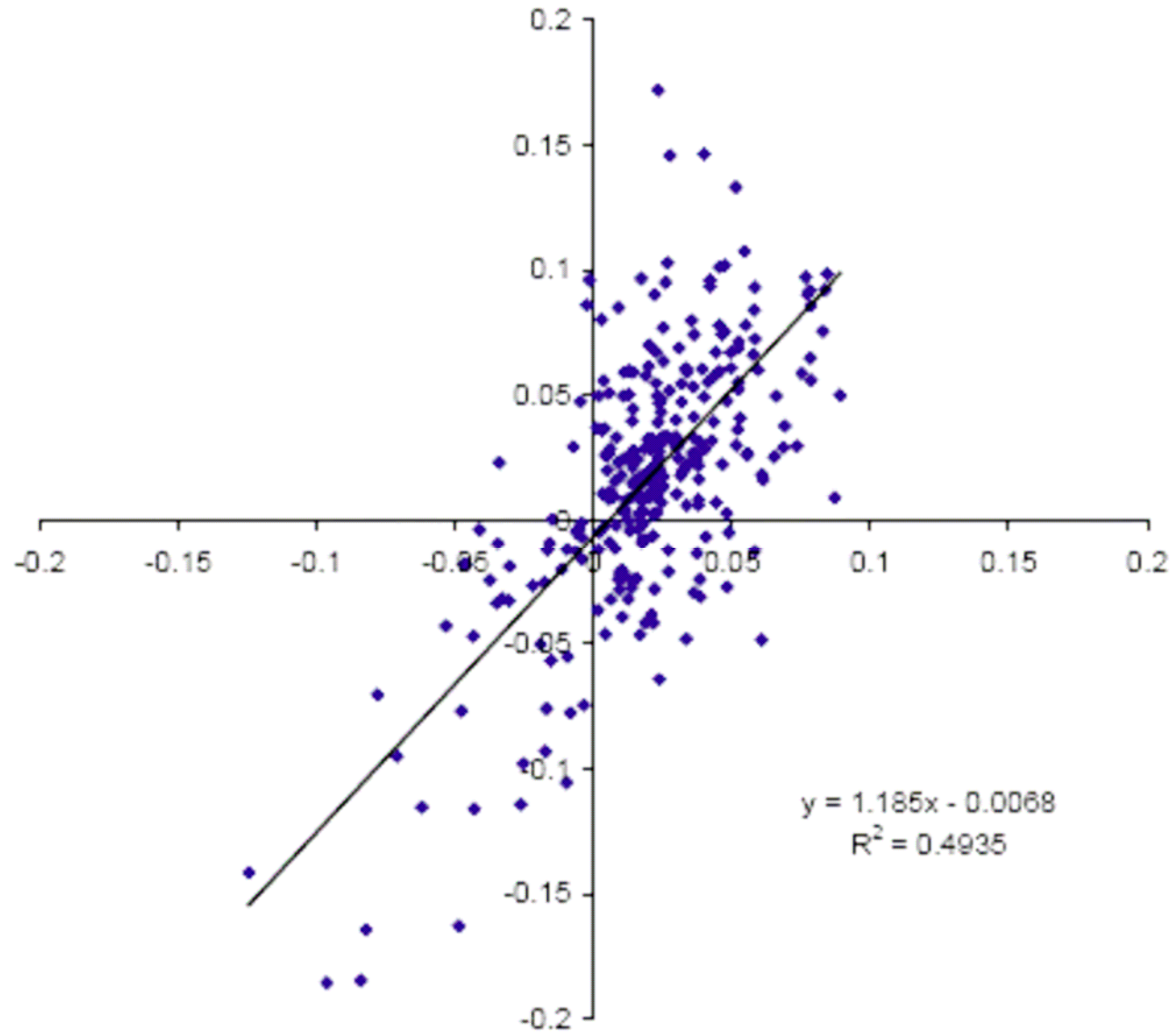
- Little attention to measuring impacts (or achieving scale), so donor ‘champions’ lack data they need
- Traditional interventions are often dressed up in progressive language
- Some recent evaluations have not been positive - targeted approaches are perceived to have mixed impacts
- A growing belief, 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

World Bank IFC

Small & Medium Enterprises

Creating a positive business environment

Search: Go!

Home > Small and Medium Enterprises

Small and Medium Enterprises

A poor business environment often hits smaller and informal firms the hardest.



For example, flat rate registration fees and bribes disproportionately hit small firms, and small firms have more difficulties than large firms in generating their own power. Small firms also have more difficulty getting access to finance because of limited assets for collateral and shorter credit histories.

Informal firms account for more than half of all economic activity in many developing countries. Although they escape taxes and regulatory requirements, such firms have less secure property rights, and less access to finance and infrastructure services.

This means smaller firms and informal firms may stand to benefit more from broad-based investment climate reforms than many large firms.

Special features, news, and publications

- Policy note: [Reforming collateral laws](#)
- Guidelines: [Good practices for regulatory inspections](#)
- Policy note: [Do pro-SME policies work?](#)
- Data: [The size of the informal sector in 110 countries](#)
- Case study: [Entrepreneurs in transition economies](#)

Policy solutions

Reducing barriers: Reducing administrative and regulatory barriers

Measurement

Doing Business measures many of the obstacles facing SMEs: getting credit, securing

PSD Blog

The latest posts on SMEs:

- Challenging CK Prahalad
- Blended value investing
- Angel investing in Latin America
- Conflict remittances
- Are microfinance interest rates too high?

[More posts](#)

Regional focus

IFC and its partners fund a network of 10 [Project Development Facilities](#) that serve specific countries and regions.

Quarterly newsletter
[Latest Issue](#) | [Subscribe](#)

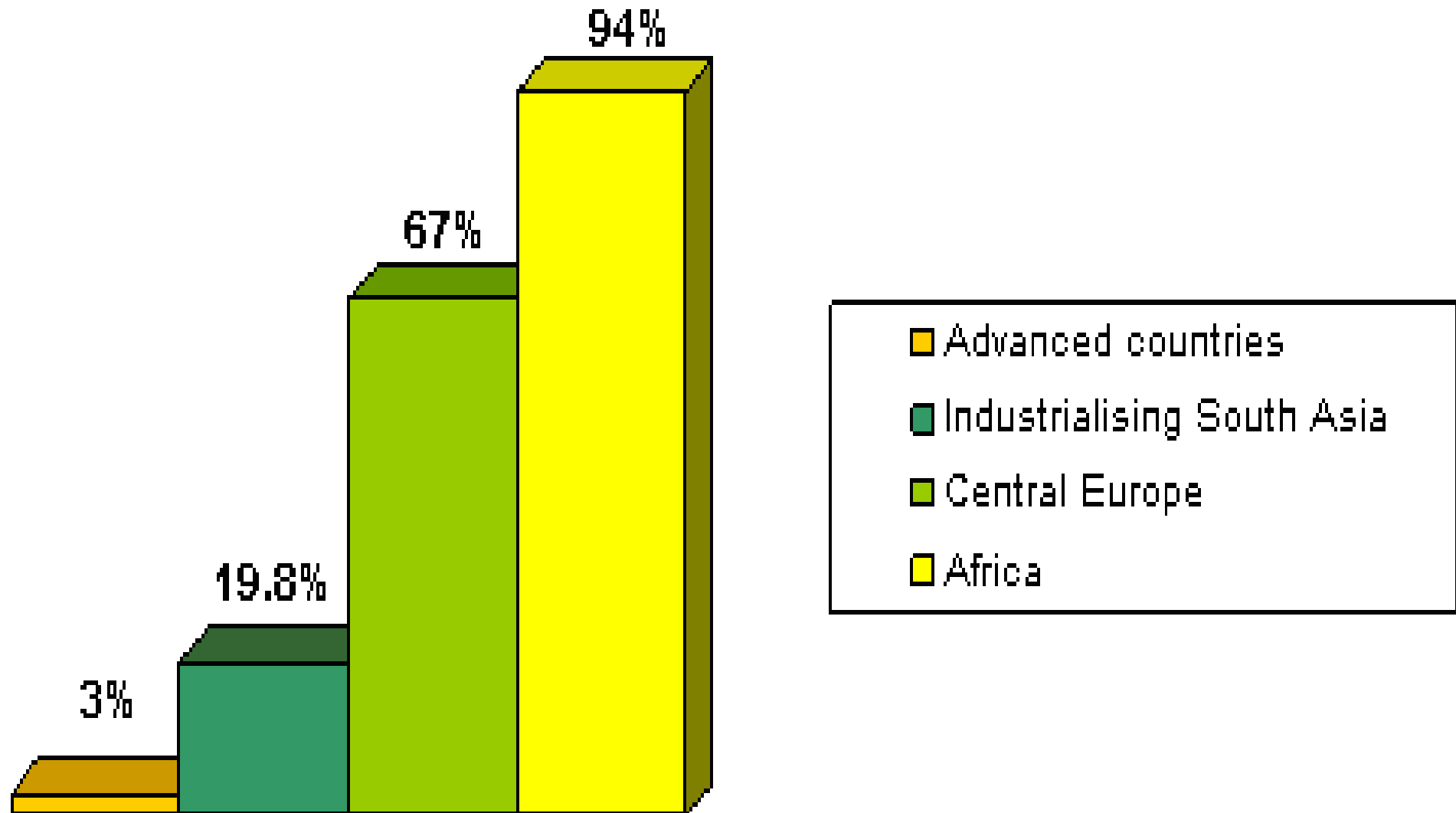
Data

- Micro, Small, and Medium Enterprises database
- Size of the informal economy in 110 countries
- Inter-American Development Bank SME Observatory

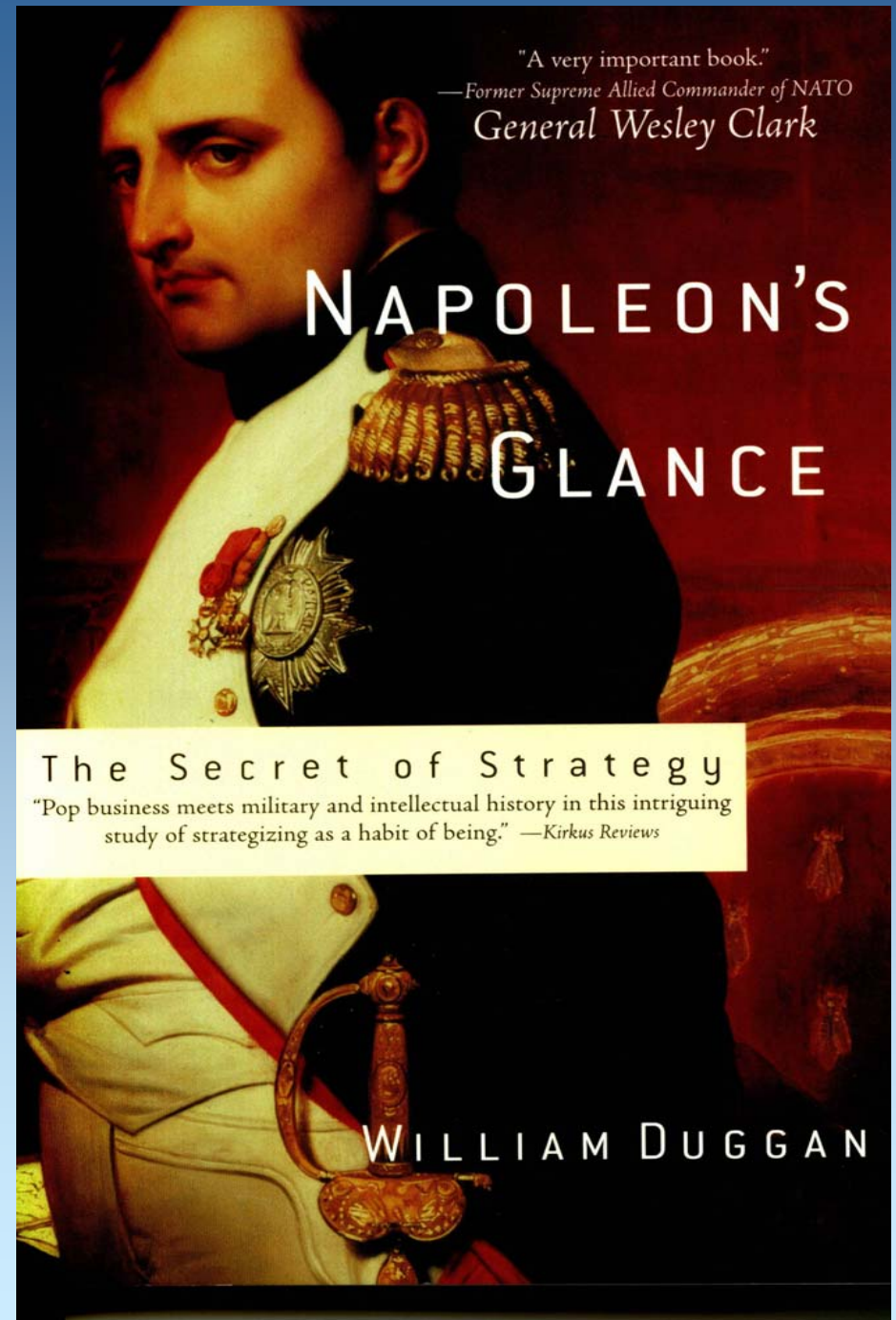
More not-so-good news

- 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)

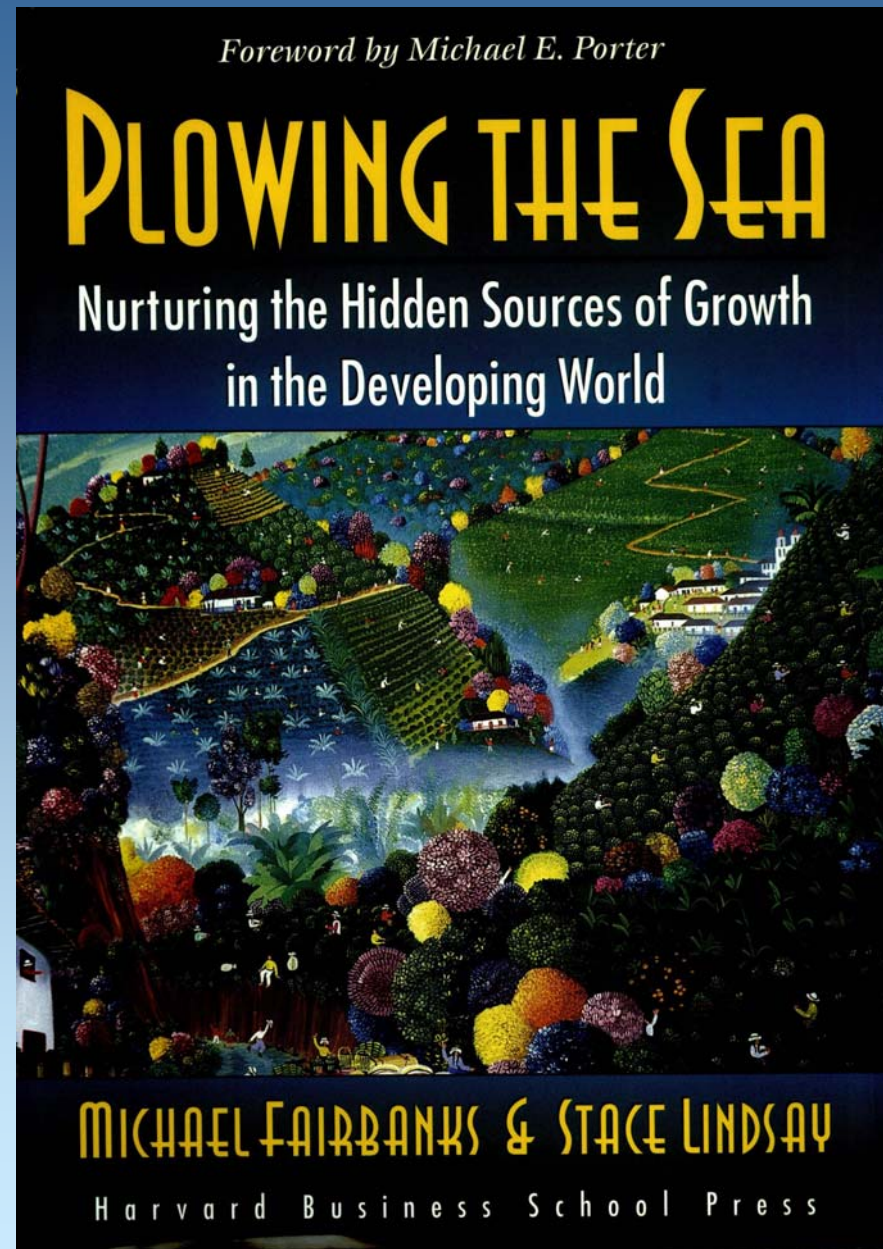


So – time to
think
strategically...



Where is the demand?

Several case studies from Latin America: upgrading 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

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:

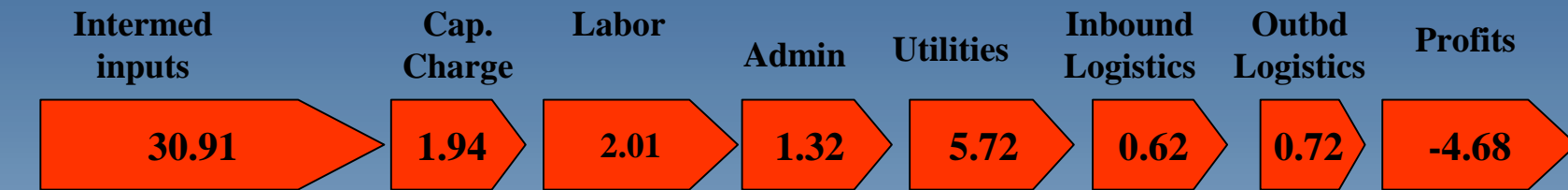
Honduras = 1 day
Kenya = 2 days

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



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?