Value Chain Promotion and Business Environment Reforms

Experiences from Sri Lanka

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Starting Point

In Sri Lanka we find today the following set-up:

- A very fragmented public sector (e.g. over 60 Ministries).

- Private sector organization in Sri Lanka also rather fragmented! However, certain organizations and enterprises in the country are professionally very well managed, economically successful and motivated to participate in the improvement of framework conditions.

- Within this frame the German Technical Cooperation (GTZ) initiated 2004 a “bottom-up” approach by using the Value Chain Methodology with the objective to improve competitiveness and framework conditions of the SME sector in a sustainable way.

- The main focus of this presentation lies on the question what the Value Chain Approach can contribute to business environment reforms under the described circumstances, particularly with regard to the sector specific framework and the role of the private sector in this reform process.
Leading Idea

The leading idea behind the chosen Approach in Sri Lanka is that through a close interaction of stakeholders from different sectors of the society and different segments of the supply chain important contributions can be expected:

- First to solve the immediate problems in selected value chains or sub-sectors.

- Secondly to influence strongly on the right sector specific environment.

- Thirdly to raise macro issues that are clear impediments and bottlenecks for a accelerated economic development.
VC CYCLE

1. Baseline Data Collection & Evaluation
2. Mapping Value Chain, Performance Requirements & Gaps, Responses to Critical Issues
3. Intervention Strategy, Milestones and Action Plan
4. Implementation, Technical Assistance & Monitoring, Re-planning

Stages
- Strategy Implementation & Re-planning
- Strategic Choices & Action Planning
- Mapping Value Chain, Performance Requirements & Gaps, Responses to Critical Issues
- Objectives, Sector studies & Selection of Prioritized Sub-Sectors
GENERIC MODEL OF A CORE GROUP
Value Chain Reform Agenda

**Micro Level**

Short and medium-term measures which are directed to single enterprises or a “cluster” of enterprises with the objective to increase their competitiveness or their inclusion in a value chain.

**Meso Level**

Creation of a sector specific conducive business environment in the case of policies, regulations and also institutions which are of immediate importance for the conditions under which enterprises in one selected sector or value chain will do businesses.

**Macro Level**

All issues which are of more general importance for the enterprises and which basically constitute the overall environment for the entire business community.
Establishing a Favorable Business Environment

- The next questions arising are: Who is doing what? Are these issues falling mostly in the responsibility of the Government or/and of public sector institutions or what would be the role of the private sector?

- In the case of enterprise related measures (micro level), the answer is quite clear, they can nearly exclusively be implemented by the enterprises and their organizations themselves.

- With regard to the macro issues it is also quite obvious that they fall into the category of “public goods” and therefore have to be taken up by the Government.

- The interesting question is what happens with the sector specific “meso” issues? Who is in the driver’s seat?
A Revealing Matrix

<table>
<thead>
<tr>
<th>Issues identified and addressed</th>
<th>Implementation responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Export Strategy ✓</td>
<td>➢ Public-Private Core Team</td>
</tr>
<tr>
<td>New focus for the tourism sector ✓</td>
<td>➢ Tourist Board, advised by the VC-CG12</td>
</tr>
<tr>
<td>Sector Advisory Committees under the Ministry of Industrial Development ✓</td>
<td>➢ Mostly private sector representatives advise the Government</td>
</tr>
<tr>
<td>Tariffs for imported intermediate good (packaging material, accessories, etc.) ✓</td>
<td>➢ Finance Ministry on proposals from different VC-CGs</td>
</tr>
<tr>
<td>Subsidies for the organic certification ✓</td>
<td>➢ Finance Ministry on proposal of the VC-CG</td>
</tr>
<tr>
<td>Law for the Organic Production ↔</td>
<td>➢ Ministry for Agriculture, closely advised by the VC-CG</td>
</tr>
<tr>
<td>Change of customs regulations for organic products ✓</td>
<td>➢ Finance Ministry / Customs on proposals of the VC-CG</td>
</tr>
<tr>
<td>“Eurocodes” in the construction sector ↔</td>
<td>➢ Chamber of Construction Industry</td>
</tr>
<tr>
<td>National organic certification programme (in collaboration with the EU)</td>
<td>➢ Partnership between public institutions, private sector stakeholders and GTZ</td>
</tr>
<tr>
<td>“Green Labeling” for eco-tourism ↔</td>
<td>➢ ASMET (Sector Association)</td>
</tr>
<tr>
<td>GMP/GAP and HACCP standards for spices and other sectors ↔</td>
<td>➢ Spice Council (sector Apex body)</td>
</tr>
</tbody>
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Continued…..


<table>
<thead>
<tr>
<th>Strengthening of the National Accreditation Board ↔</th>
<th>Public sector, supported by the industry</th>
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</thead>
<tbody>
<tr>
<td>Start-up of a new Association in the tourism sector ✓</td>
<td></td>
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<tr>
<td>Strengthening and capacity building of sector organizations (e.g. the Spice Council, the Chamber of Construction Industry and the Rubber Product SME Association) ↔</td>
<td>All Private Sector</td>
</tr>
<tr>
<td>Set-up of a Cinnamon Training Academy ↔</td>
<td></td>
</tr>
<tr>
<td>Business Linkages Program's in different chambers and sector associations ↔</td>
<td></td>
</tr>
<tr>
<td>GMP/GAP Demonstration Centre for Cinnamon ✓</td>
<td></td>
</tr>
<tr>
<td>Improvements of the business service and public portfolio of different private and public sector institutions ↔</td>
<td></td>
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<tr>
<td>SME Help Desk in the Ceylon Chamber of Commerce ↔</td>
<td></td>
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<tr>
<td>Spices Council</td>
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<td>Private Sector</td>
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<td>Spices Council</td>
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<td>Private and Public Sector</td>
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<tr>
<td>Private Sector</td>
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</table>

**Conclusion:** Maybe it comes as a surprise: A great deal of the reforms with regard to sector specific framework conditions is auto-set or heavily influenced by the private sector.
What was the “Project” doing?

The “Project” tried to maintain the position of a facilitator through the following contributions:

- Transfer of the VC methodology and international “good practice” (e.g. steps of VC cycle, mapping exercise, concept of systematic competitiveness, etc.)

- Organization of dialogue platforms and networks (e.g. Core Groups)

- Infusion of advanced sector and development know-how via international and regional expertise (e.g. standards for organic production, GAP/GMP, “green labeling”, linkages promotion)

- Visits to interesting programs and institutions in other countries as well as participation in international conferences (e.g. linkage programs in Thailand and Singapore)

- Use of local know-how (e.g. capacity building of local sector organizations)

- Provision of access to Government institutions, decision makers and other donors.
To what the Approach could contribute!

- A comprehensive view of all production stages and correspondingly of all related critical issues from the buyers perspective;

- A hands-on approach by including the stakeholders, specifically from the private sector as the owners of the production process, into analysis and implementation;

- Stimulation of know-how and commitment of the private sector and creation of ownership;

- The private sector recognizes that it can contribute decisively to an enabling business environment or even create it;

- The public sector is participant and understands better the needs of the private sector and shows correspondingly a higher readiness for quick reforms, particularly with regard to sector specific changes in the business environment.
Résumé

Development can only take place if the different action levels – the enterprise level issues, the sector specific business environment and macro framework – are being seen in a systematic relation. The VC Approach can do much to reveal the key topics, which in most cases should then be tackled in a “bottom up” sequence.
THANK YOU.

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