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Business Enabling Environment and the Value Chain

‘The Path to Strategic Policy Reform’

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What is successful Policy Reform?

X It is NOT changing laws

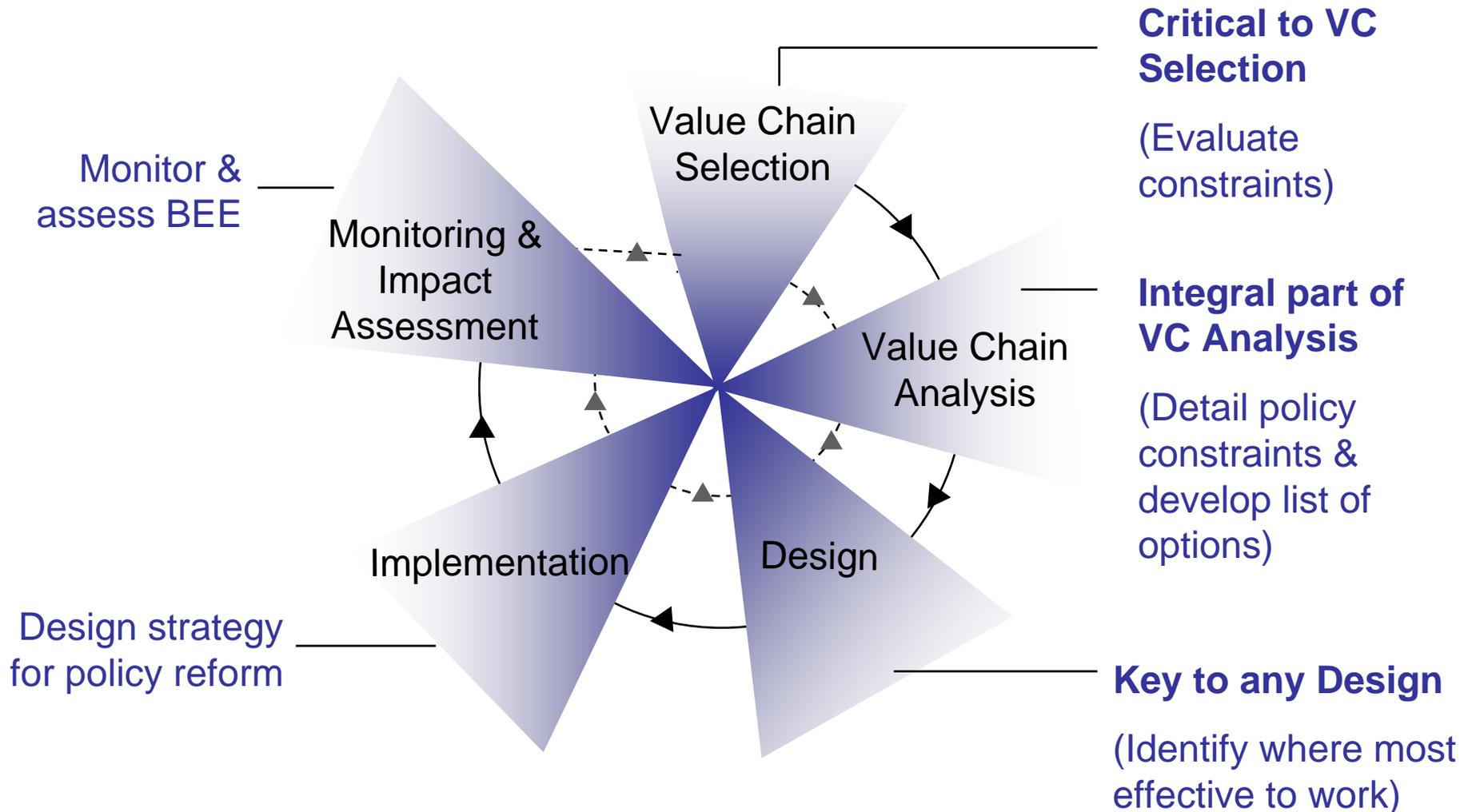
✓ It is changing:

- implementation of the laws
- regulatory burdens
- business relationships
- **incentives that determine business decisions**

This is what we want from policy reform!

What can you do to achieve this?

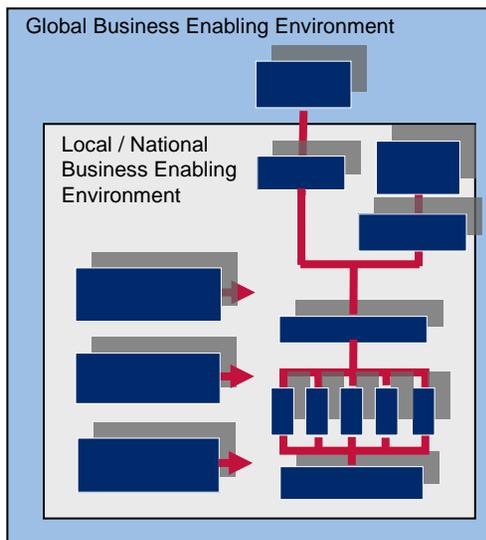
How Does Business Enabling Environment (BEE) fit with Value Chain Analysis?



The Value Chain can be a reform FRAMEWORK

Can use Value Chain as:

- **context for assessing policy barriers**
- **framework for advocacy**



Key benefits

1. more easily value impact of binding constraints on Value Chain
2. identify policy reforms that really matter to Value Chain participants
3. national policy studies might not reflect what issues most effect players in Value Chain
4. Value Chains have constituency who can advocate for change

Typical Value Chain BEE Constraints

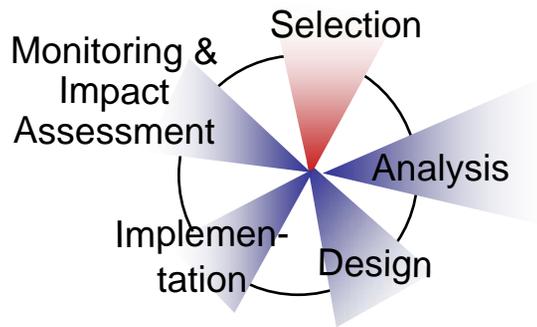
Policy Issues

- Explicit trade barriers (especially inputs)
- Customs, standards
- Foreign Direct Investment constraints
- Licensing restrictions
- Government subsidies

Enforcement Issues

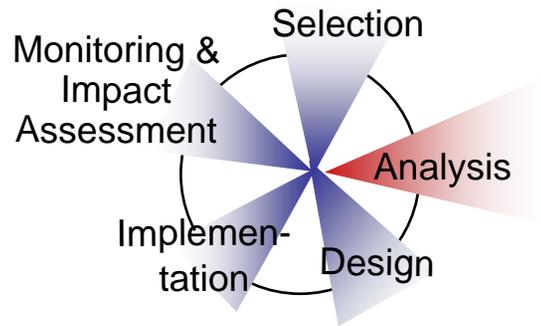
- Unequal enforcement
 - industry policies
 - Taxes
 - Licensing, permits
- Unequal access to land
- Unequal access to public infrastructure
- Unequal access to energy

BEE: Critical to **Value Chain Selection**



- Does success in value chain depend on resolving certain constraints?
- Is successful reform feasible within value chain activity time frame?
- Do you or another donor have resources to resolve constraint?

BEE: Integral part of **Value Chain Analysis**



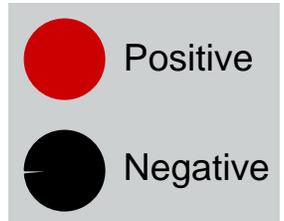
- Value chain analysis permits informed decisions:
 - Impact
 - Cost
 - Time
 - Difficulty
- Identification of complementary donor activities that support reforms

Making Strategic Choices

– Value Chain Reform Assessment & Selection

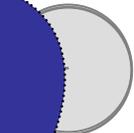
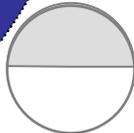
Reform of Shrimp Feedstock Import Constraint

Impact	Removing constraint reduces feedstock cost by 50%	
Cost	Will require parliamentary action – significant education, analysis of impact and advocacy involved	
Time	Parliament could pass it in one year	
Difficulty	There is little current support outside of industry No lead firms appears willing to champion this Current licensee holds significant sway in parliament	



Reform Assessment & Selection

Vary by sector / geography

Impact	Removing constraint reduces feedstock cost by 50%	
Cost	Will require parliamentary action – significant education of impact and cost	
Time	Parliamentary action in 1 year	
Difficulty	Parliamentary support appears willing to champion this current licensee holds significant sway in parliament	

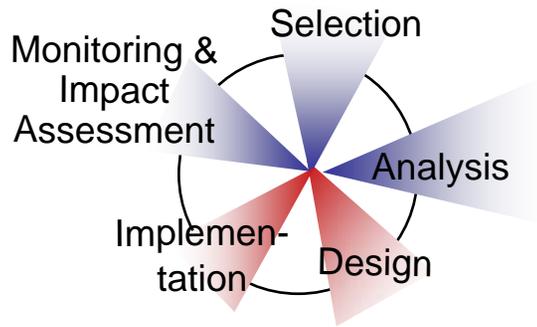
Don't Forget:
 "Who will lose?"
 "Who will oppose?"

BEE Constraints in the Value Chain

Examples:

- Kenya agrochemical regime - cotton to garment value chain
- Kenya Coffee value chain
- Nigeria Export Processing Zone

BEE: Design & Implementation – Principles & Guidelines



- Know where you're going – have a strategy for reform
- Start with smaller, manageable reforms that build credibility
- Avoid high risk strategies
- Information (usually from the donor) supports effective dialogue
- Ownership is important
- Do not advocate

Using Value Chain as Strategic Point of Entry

- Reform at the value chain level may be more achievable within program timeframes
- Constituencies may be fewer and more closely aligned
- Advocacy groups may be more coherent
- Existing program relationships
- Complementarity to other program objectives

Implementation of Laws Makes a Difference

- Can make huge impact on policy without changing any laws
- Implementing well matters as much as passing new laws

Example:

- The provincial implementation of the national framework varies broadly

→ if work in a particular sector that is in only in one region of the country, better to work on only that one region's policy level rather than nationally

	Bac Ninh	Hai Phong	Binh Dinh
# of Steps	98	70	51
# of Requirements	13	6	7
# of Days	28	24	11
# of Visits Needed	10	7	7

Keep in mind: Local Governments Matter

- Local governments enforce both national and local laws, regulations, and decrees
 - Transaction costs
 - Incentives to formalize
 - Affects business relationships and upgrading

Keep in mind: Success may require creativity

- Institutional incentives matter

- Example:

- Egypt business registration reform replaced incentives for corruption with incentives for efficient behavior through transparency and performance awards

How do you get there?

- Successful reform programs include:
 - Building advocacy capacity
 - Public private dialogue
 - Building the capacity of local governments
 - Develop Business Environment reform support functions
 - Changing institutional incentives – implementation matters

Success Story

- Tanzania coffee chain developed a premium brand
- Analysis revealed high taxes compared to “peer” countries and sales channel constraints
- Coffee Board and key industry stakeholders presented findings to Government
- Ministry reduced taxes, levies and local fees by 21%
- Coffee Board permitted growers to sell directly to specialty buyers, and negotiate directly with roasters

Key Lesson: You Need to Build Momentum

Small successes lead to support for broader reforms

Value chains can provide the opportunity for quick reforms and often respond quickly to the reform of binding constraints

***unsuccessful or prolonged reforms
close doors***



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THANK YOU!

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