

Use of Value Chain Analysis to support Investment Climate Reform

Magdi M. Amin
Sr. Private Sector Development Specialist
East Asia & Pacific

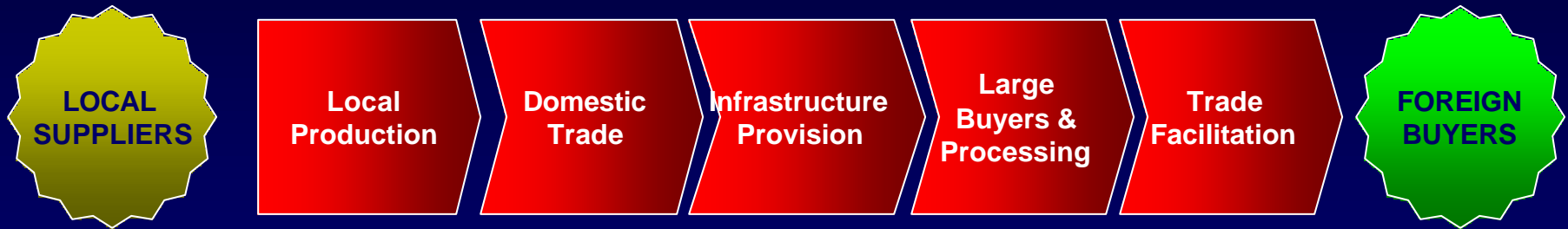
Private Sector Forum
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ICA Perspective



- **Basic hypothesis** – *policy impediments* exist that, if removed, will unleash competition which will raise productivity & investment, leading to growth.
- **Unit of analysis** is *the firm*. ICAs are useful in identifying impediments where firms interact with government: Entry process, regulation, policies that distort factor markets and policies that raise perception of risk.
- **Challenge:** unless extremely well-designed sample and detailed survey, difficult to convert ICA data to sector analysis or specific policy recommendations.

Value Chain Perspective



- **Basic hypothesis:** *transaction costs* exist that, if removed, would enable firms to maximize use of resources within a network/ supply chain to deliver a product most efficiently, raising productivity of the entire chain.
- **Unit of analysis** is *the network* of suppliers and buyers that produce a given product. Value chain analysis can identify policy-induced costs, but also non-state transaction costs (e.g. logistics, manufacturing support).
- **Challenge:** since results are specific to products, they are less robust - may be difficult to generalize either to sectors or to the economy.

Changes in global manufacturing and services environment force us to look at value chains

- **Inventory**
- **Vertical Integration**
- **Resource/Market-seeking FDI**
- **Physical infrastructure**
- **Marketing, selling to customers**
- **Quotas**



- **Information**
- **Virtual Integration**
- **Network-seeking FDI**
- **Integrated logistics**
- **Collaborating with network partners**
- **WTO**

–Coase Theorem: firm will grow to point at which cost of conducting additional
– transaction cost inside firm is equal to conducting it in open market

Case Study:

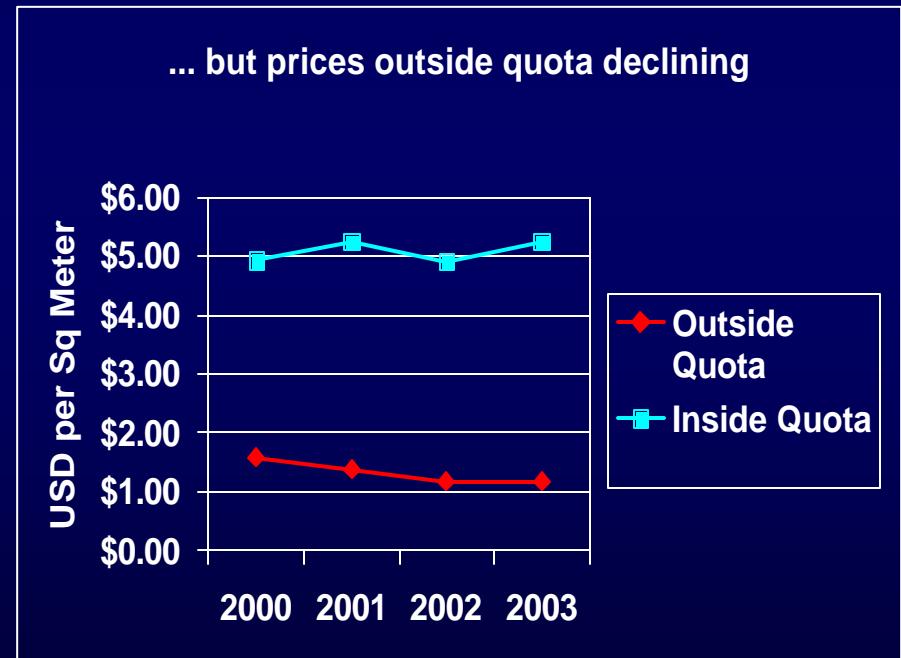
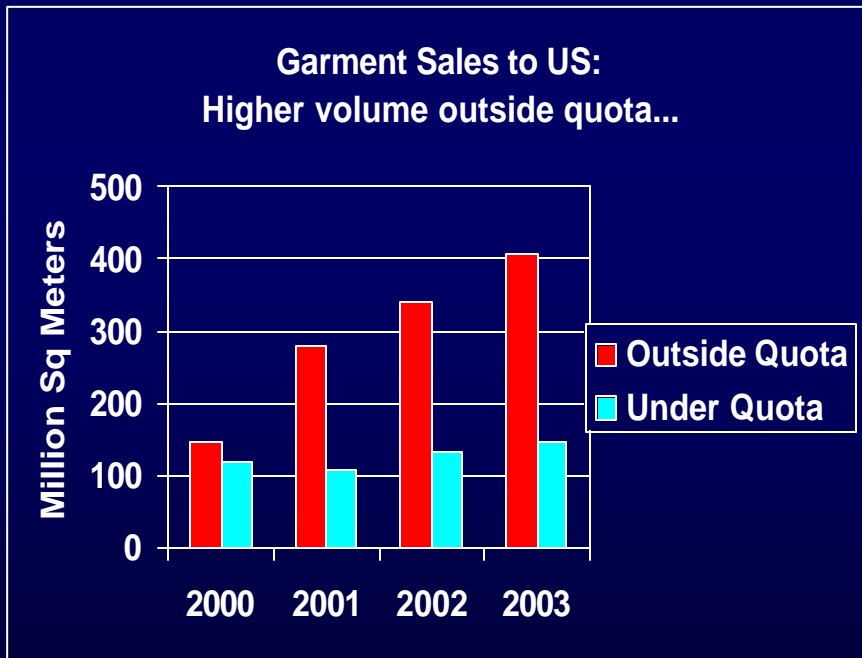


Cambodia Garment Sector

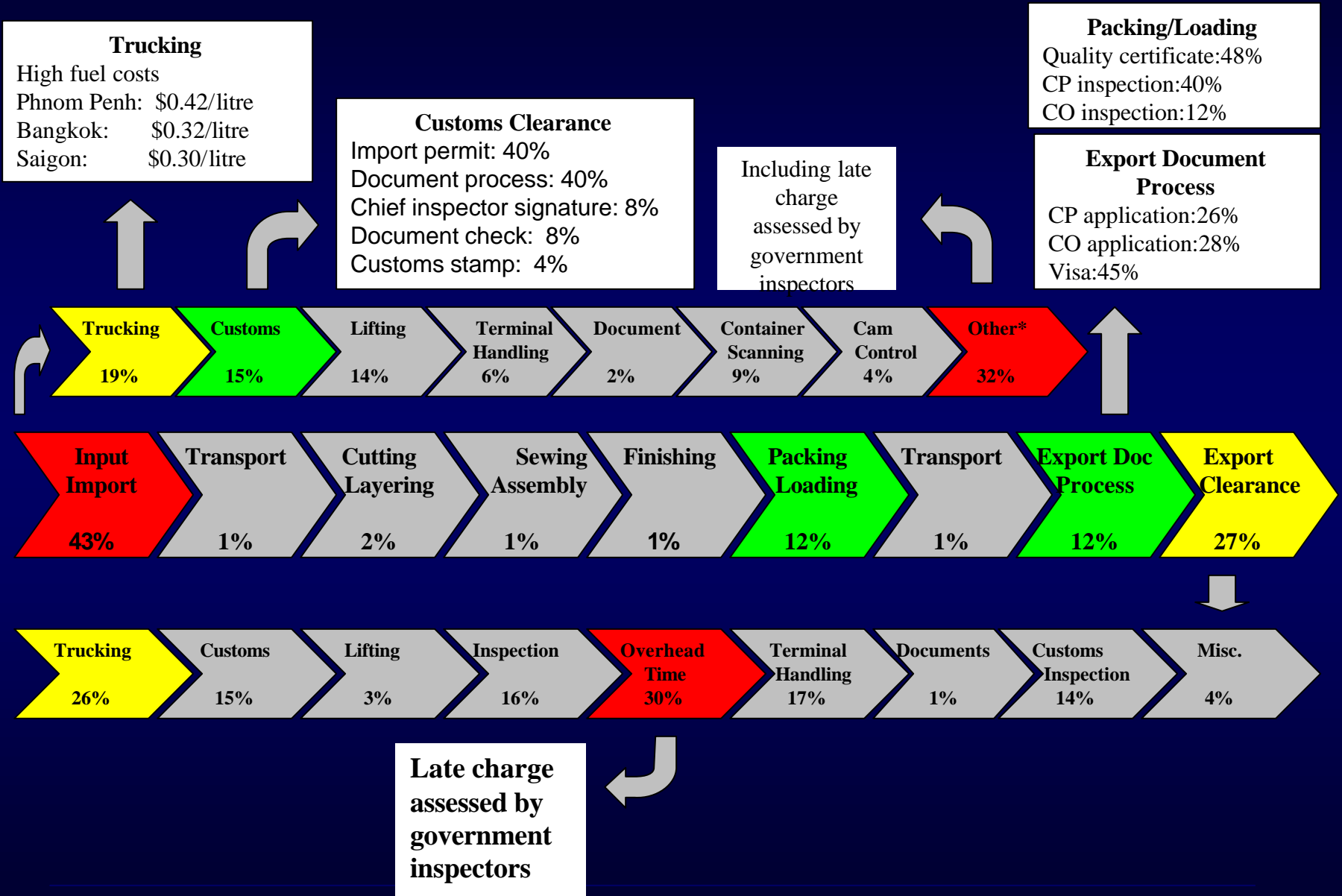


Cambodia's main export at risk

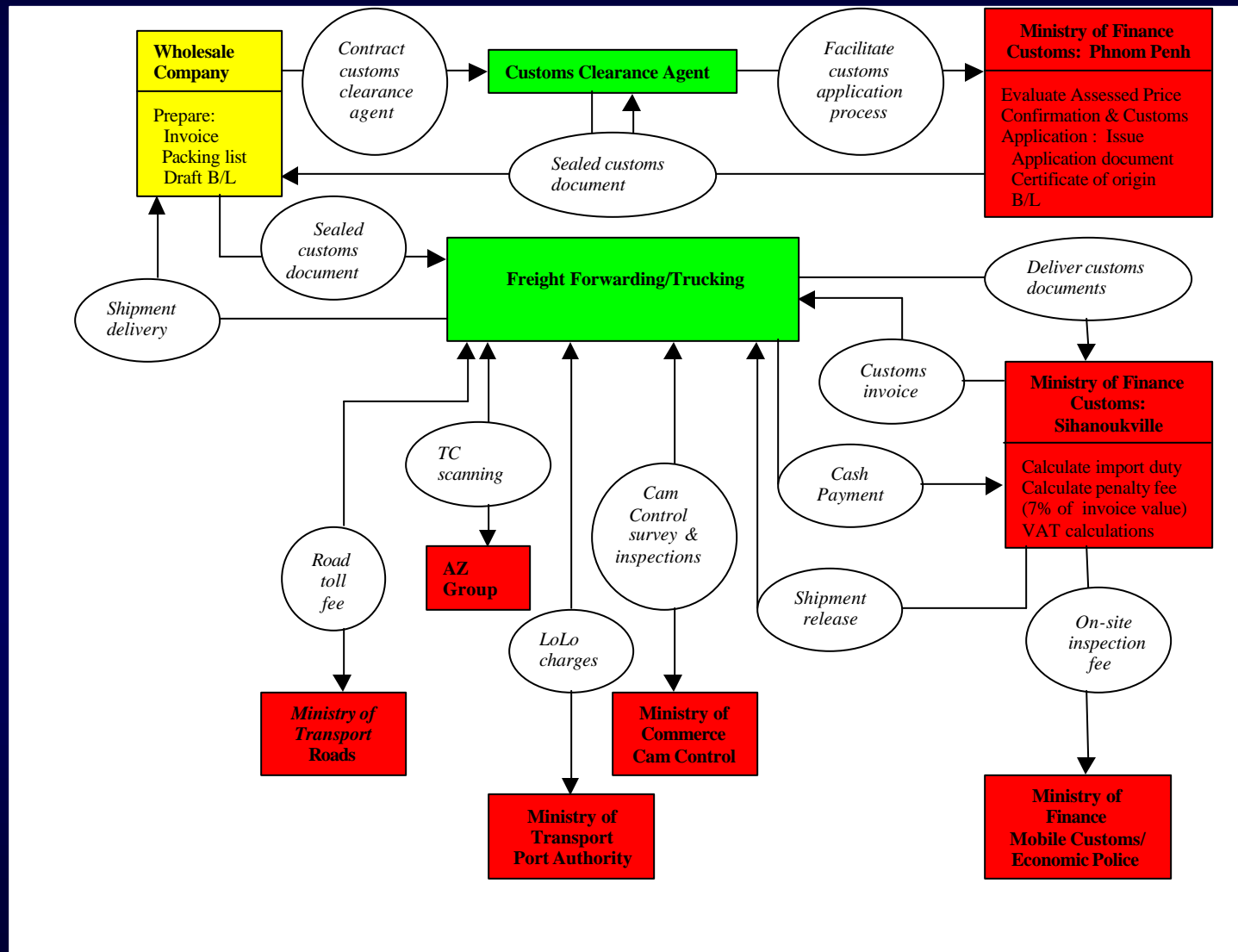
- In 2005, sector will be exposed to direct competition
- Outside of quotas, margins have already declined and will decline further



Administrative Interventions – Production/Export of 40 Ft Container of Denim Jeans



Import and Customs Clearance Procedure



High Administrative Costs threaten the sector

Competitiveness of the garment industry hinges on reducing high administrative costs

Sample Benchmark of Import Clearance Charges for Garments

Cambodia:	\$858		55% - 178% more expensive to import into Cambodia
Hong Kong:	\$555		
Malaysia:	\$309		
Sri Lanka:	\$484		
Madagascar:	\$367		

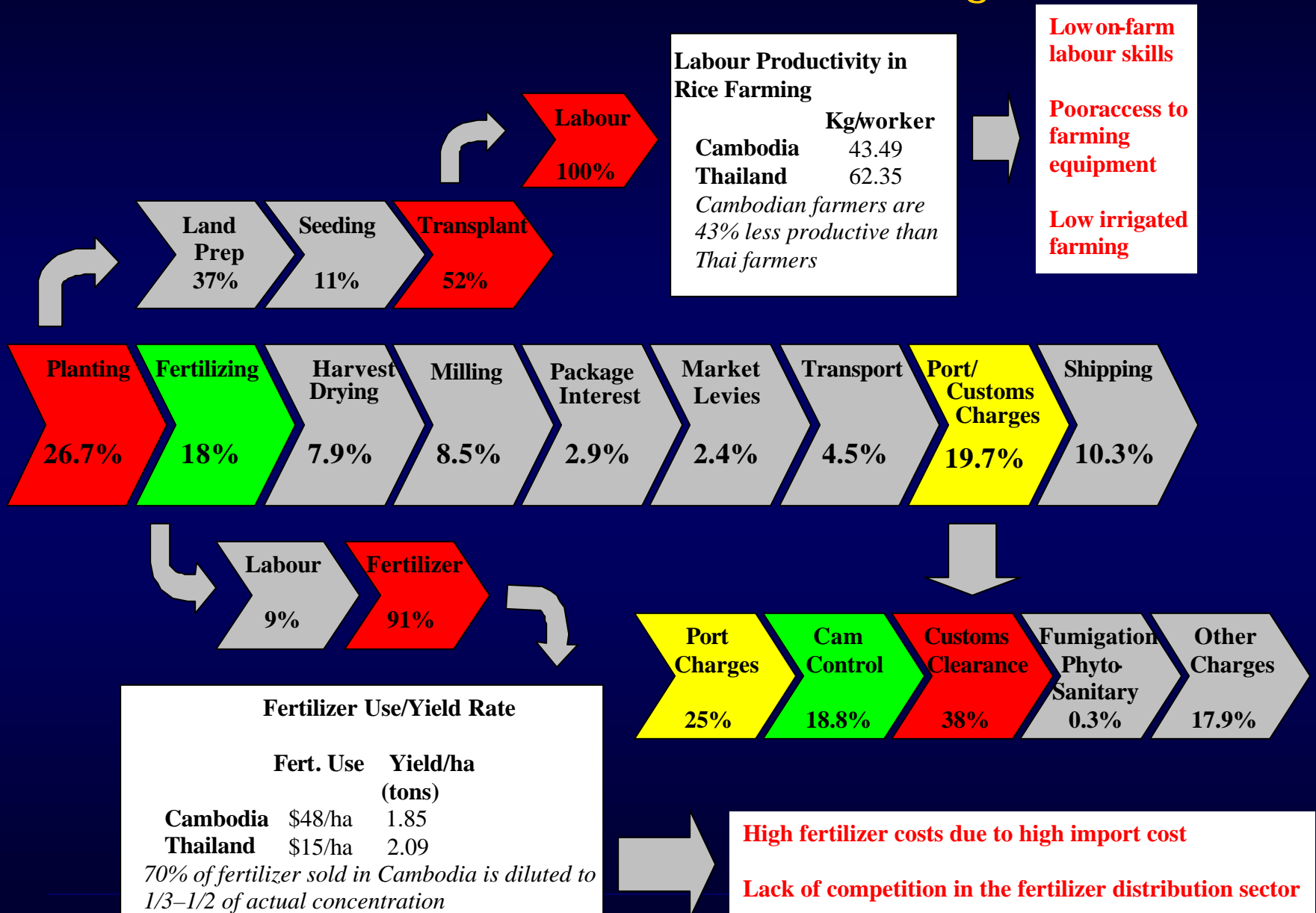
Key Cost Factor for Import Clearance in Cambodia

Importers must process as many as 37 documents, 15 signatures and 13 stamps

Benchmarking Export Clearance Charges Between Cambodia and Selected Countries: 40 Ft Container

	Cambodia	Hong Kong	Malaysia	Sri Lanka	Madagascar
Trucking	\$ 200	\$ 210	\$ 85	\$ 71	\$ 50
Customs	\$ 280	\$ -	\$ -	\$ 68	\$ 25
Lifting	\$ 21	\$ -	\$ -	\$ 29	\$ 50
Inspection (at factory)	\$ 100	\$ -	\$ -	\$ -	\$ -
Overtime charges	\$ 230	\$ -	\$ -	\$ 6	\$ 247
Terminal handling charges	\$ 100	\$ 30	\$ 176	\$ 285	\$ 35
Documentation	\$ 15	\$ 15	\$ 13	\$ -	\$ -
Customs inspection fee	\$ 150	\$ -	\$ -	\$ 30	\$ 10
Misc. charges	\$ 30	\$ -	\$ -	\$ 16	
TOTAL	\$ 1,126	\$ 255	\$ 274	\$ 505	\$ 417

Value Chain for the Production of Neang Mali Rice



Labour Productivity in Rice Farming

	Kg/worker
Cambodia	43.49
Thailand	62.35

Cambodian farmers are 43% less productive than Thai farmers

Low on-farm labour skills

Poor access to farming equipment

Low irrigated farming

Fertilizer Use/Yield Rate

	Fert. Use	Yield/ha (tons)
Cambodia	\$48/ha	1.85
Thailand	\$15/ha	2.09

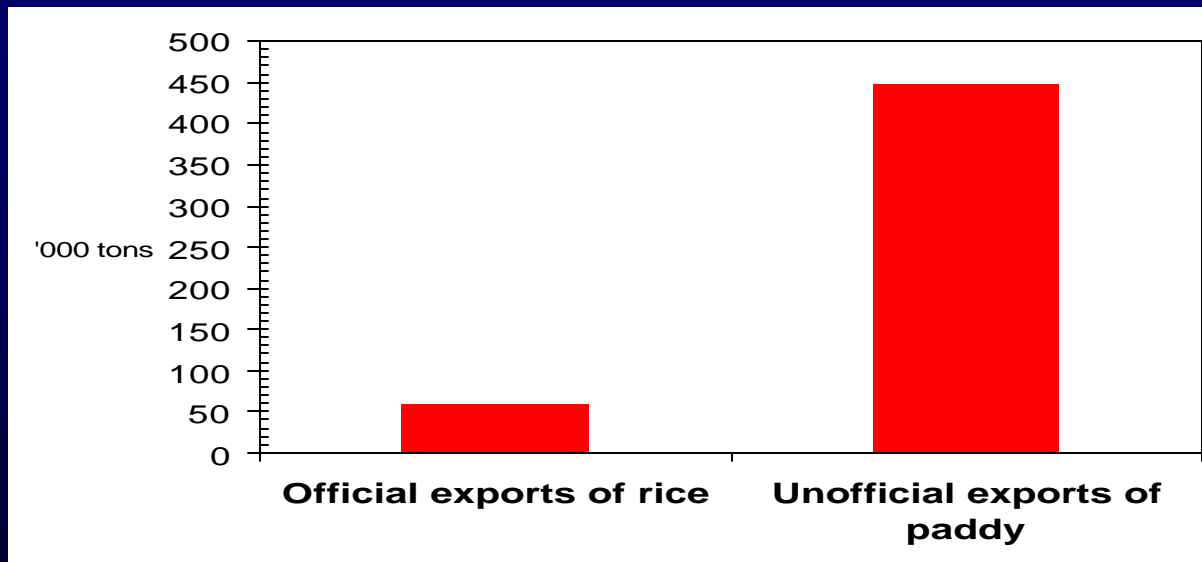
70% of fertilizer sold in Cambodia is diluted to 1/3-1/2 of actual concentration

High fertilizer costs due to high import cost

Lack of competition in the fertilizer distribution sector

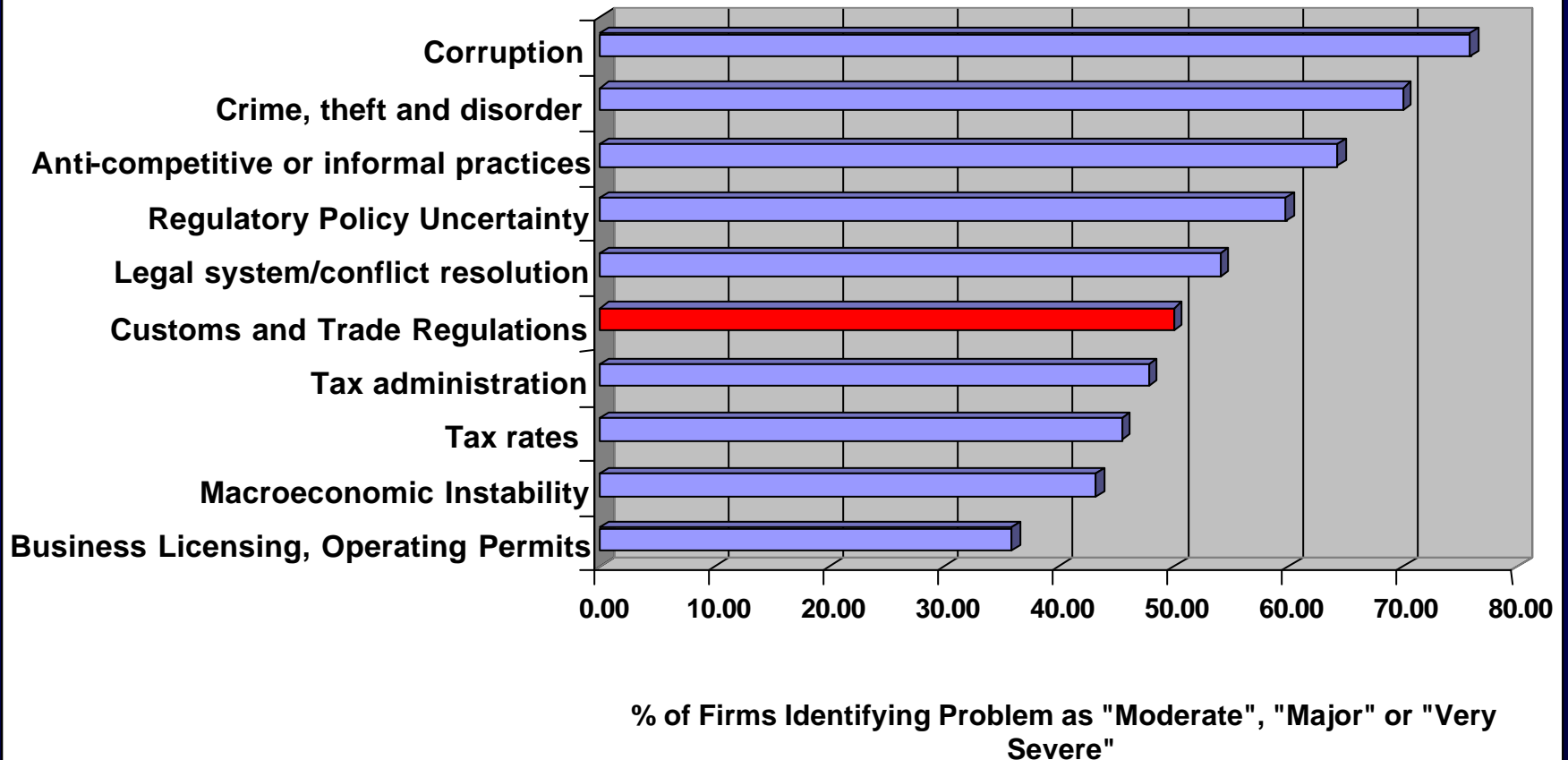
Inefficient trade facilitation impacts the farmer and contributes to informality

- **Informal mills do not have access to credit or working capital**
- **cannot buy paddy for milling – therefore raw paddy is sold to Thailand**
- **Lost contribution to GDP - \$69.7 million, loss of potential government revenue - \$4.8 million**



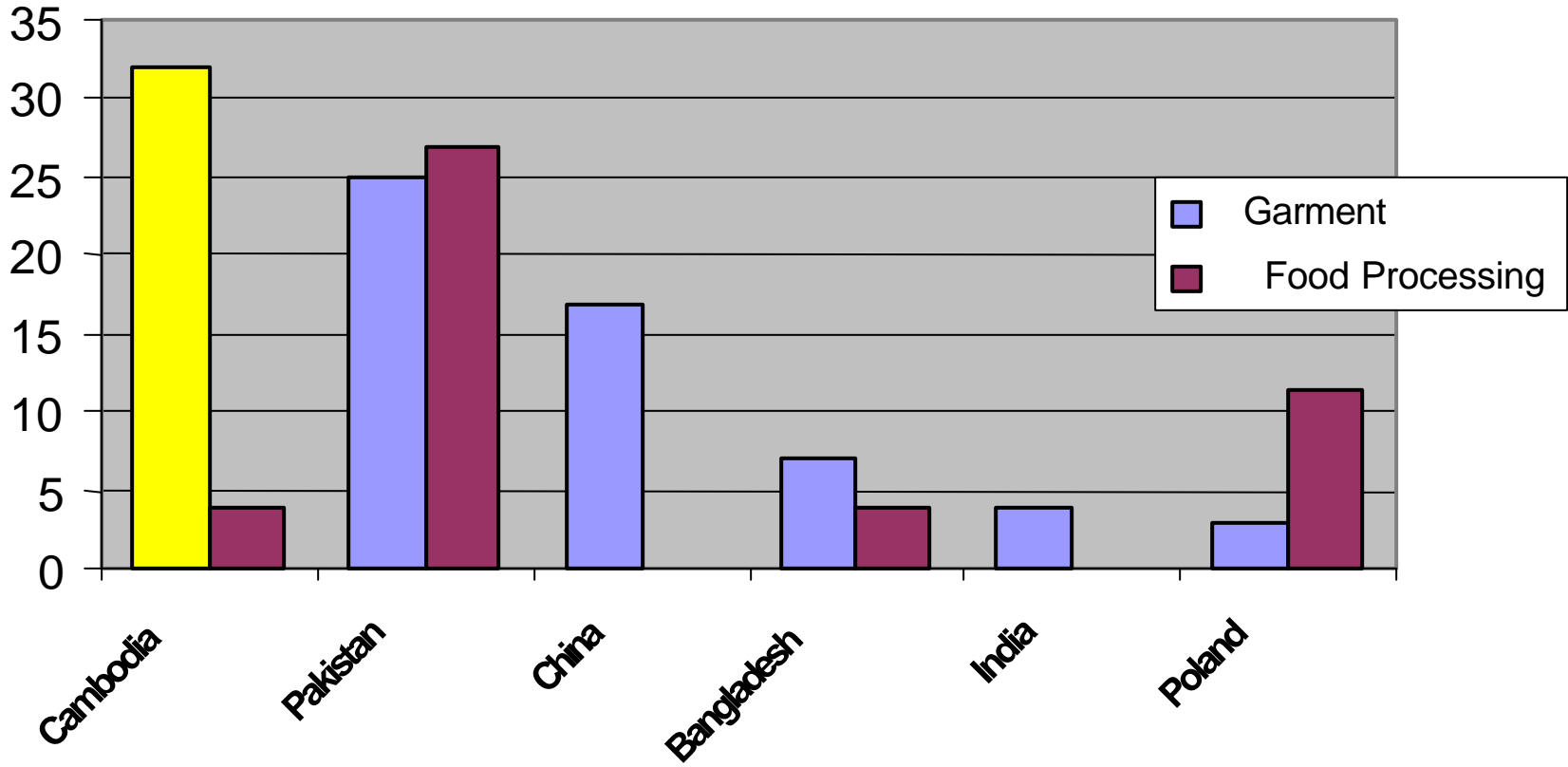
The ICA clearly revealed the importance of trade facilitation

Cambodia: Top 10 General Constraints to Private Enterprise Operation and Growth

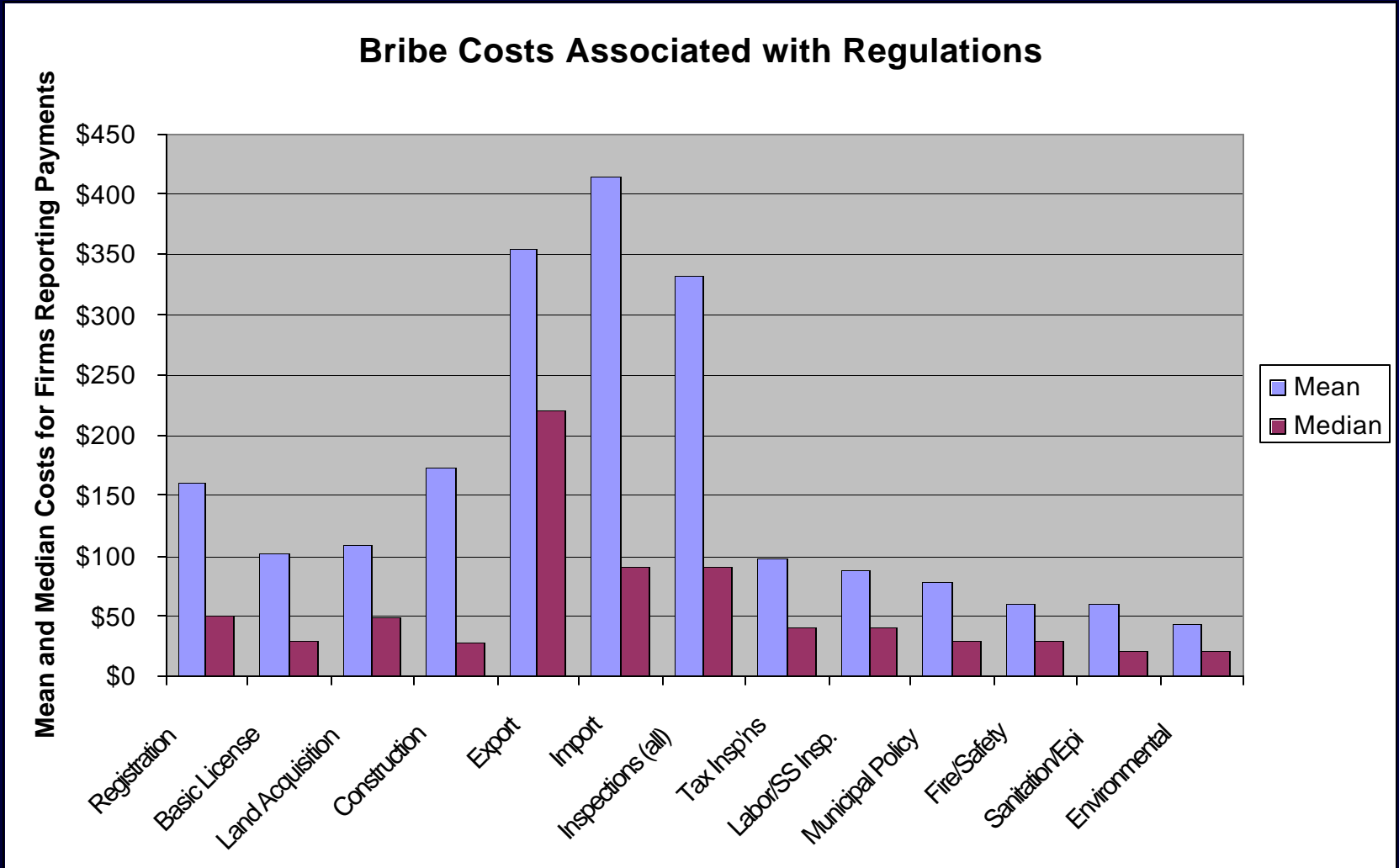


And that specific regulatory issues, such as inspection were part of the problem

Number of Inspections

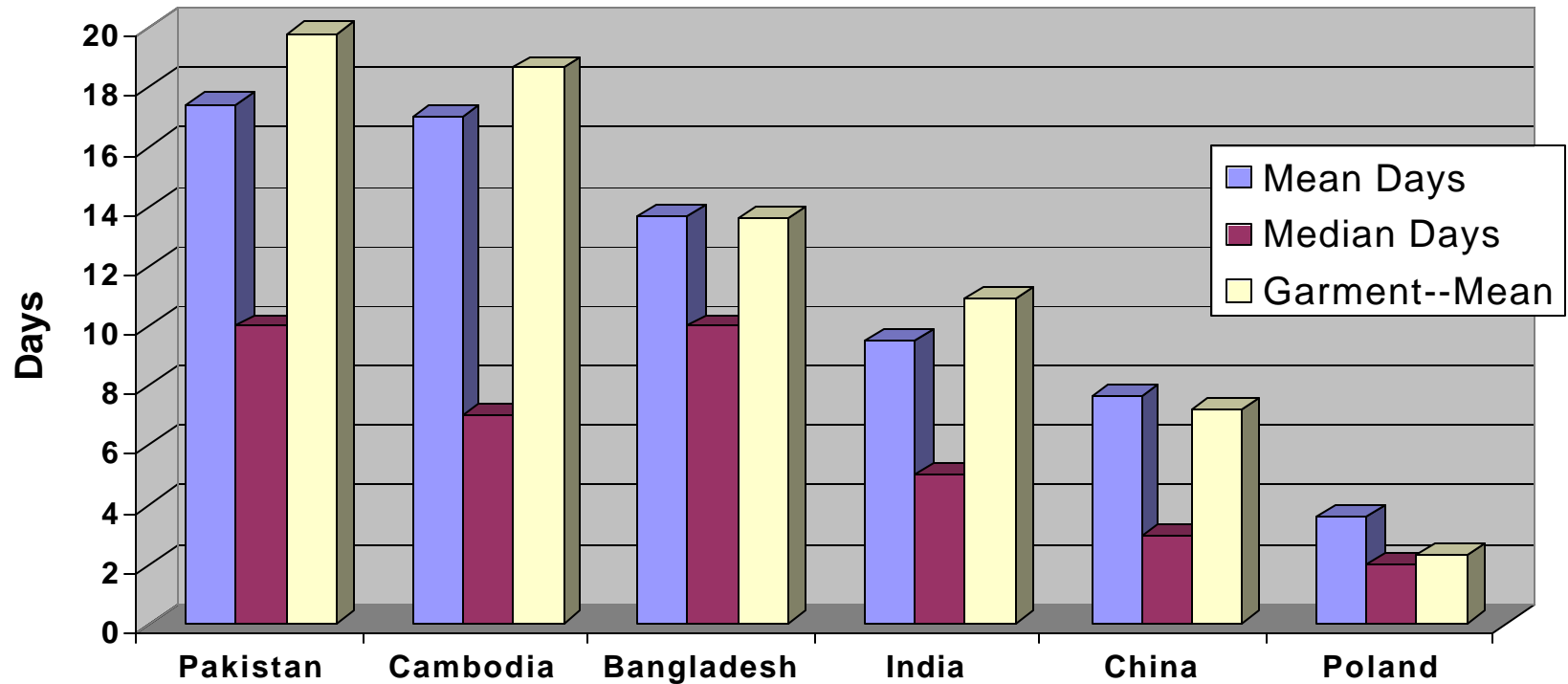


And that Trade Facilitation processes were closely associated with unofficial costs

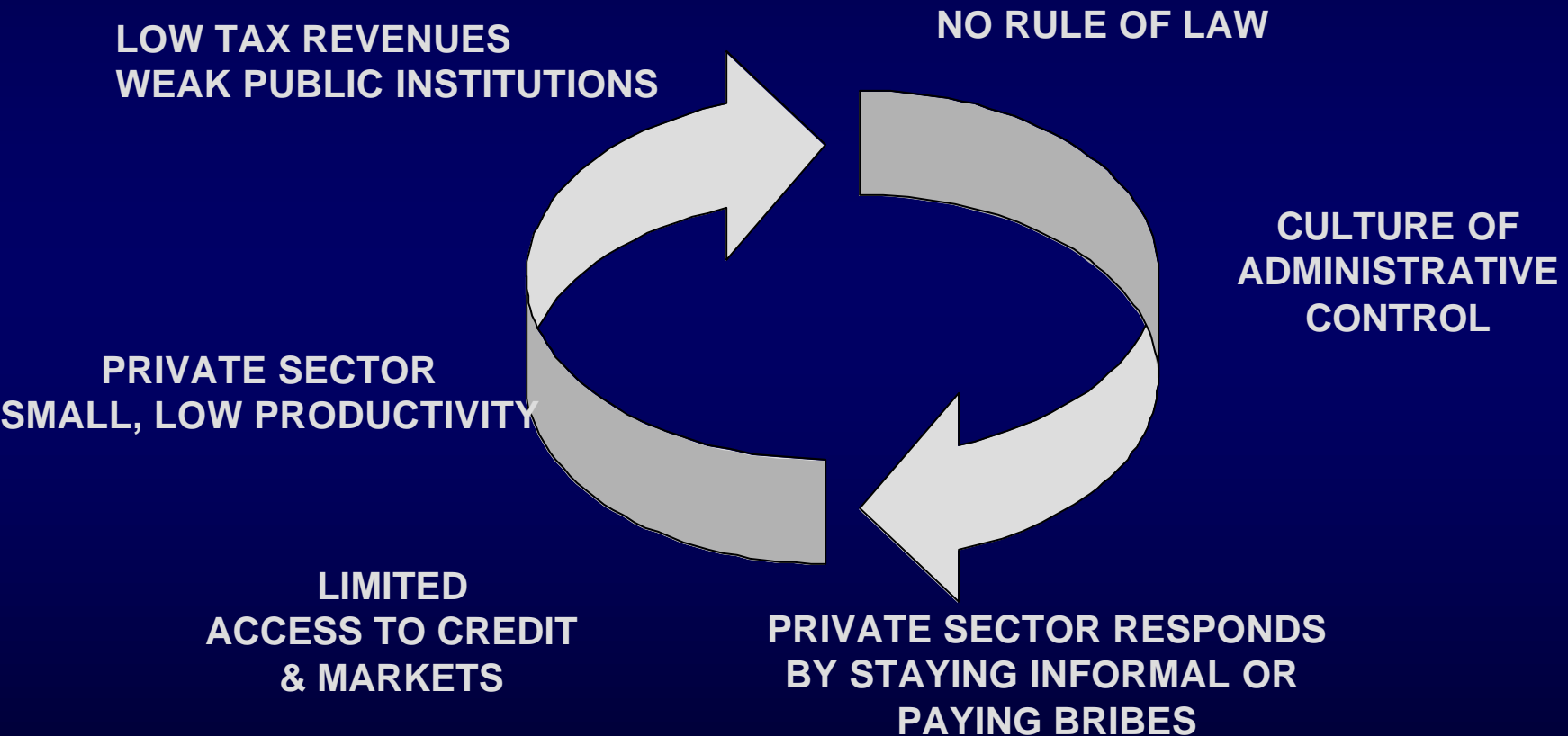


As well as delays

Longest Time in Last Year to Clear Customs



We portrayed the issues as a downward spiral



Government Reactions

- **June 2003: Value Chain Presentation**

- “The value chain analysis is an alarm bell ... we need an emergency response. We need to take action on this analysis. The only way for us to be competitive beyond our borders is to be competitive within our borders. ”

H.E. Cham Prasidh, Minister of Commerce

- **Feb 2003: ICA summary / slides sent to Prime Minister**

- **March 2004: PM signs Decision No 12: Establishment of Inter-ministerial Special Task Force for Investment Climate & Trade Facilitation with mandate to:**

- Reduce cost
- Eliminate duplicating procedures
- Reduce time delays
- Increase national budget

- **March 25, 2004: First meeting of Task Force**

Cambodian Reform Strategy Key Initiatives

Present State

Documentation/Payment

CDC (exempt status)

Customs

CamControl

Agricultural (Phyto-Sanitary)

Industry (garments)

Other

Inspections

Customs

CamControl

Agricultural

Industry

Other

Inbound Clearance Committee

Port of Sihanoukville

Customs

CamControl

Agriculture

Industry

Immigration

Future State

Documentation/Payment

CDC (exempt status)

Customs

Inspections

Customs

Special Unit (selective)

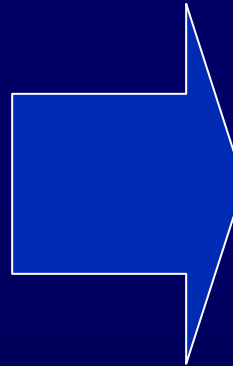
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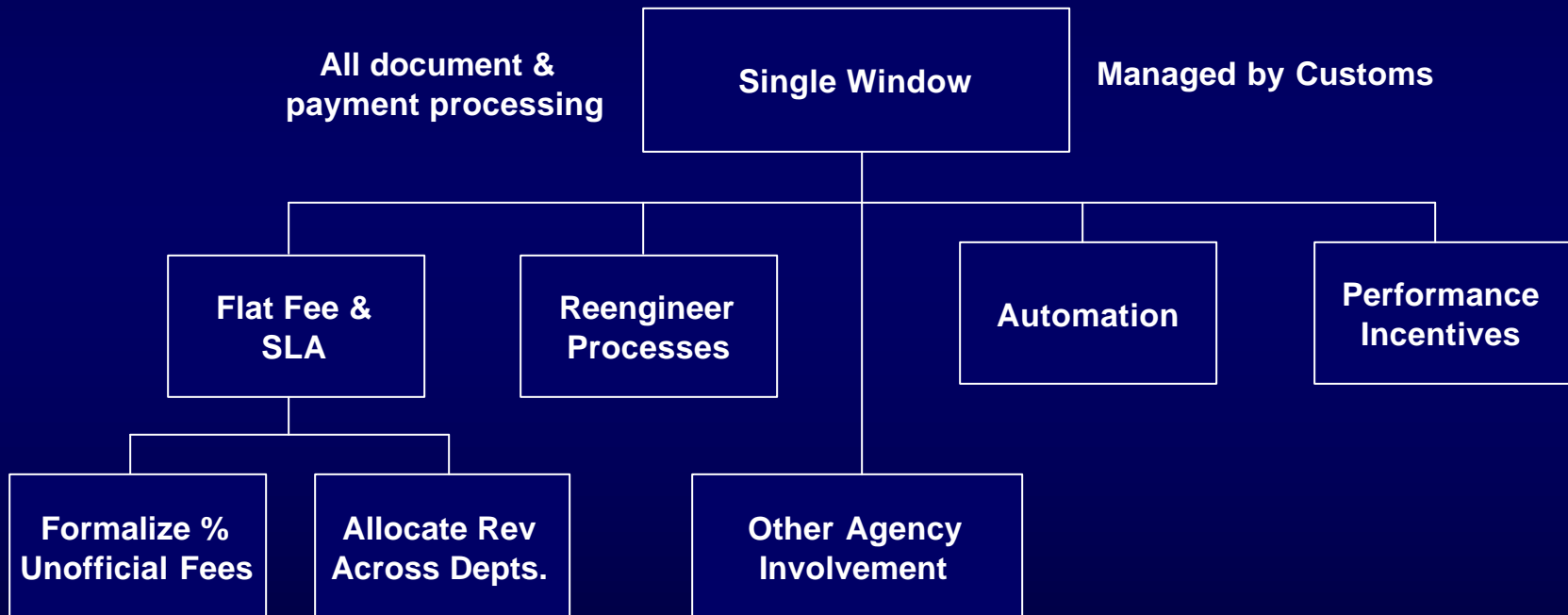
Cambodian Reform Strategy: Reduce Product Inspection Burden

Consolidate and combine multiple inspection mandates

- **Implement inspection referral system – Customs leads, and refers to specialists within other agencies (CamControl, Agriculture, Health, Labor, etc.)**
- **Reposition CamControl to focus on knowledge and understanding of quality and safety, less on inspection. Requires further study.**
- **Introduce Risk Management techniques; restructure scanning incentives**
- **Continue to outsource PSI with eventual transition to Customs, supported by appropriate capacity building**

Cambodian Reform Strategy: Single Window

Support Single Window Implementation



Other measures

Performance Measurement

Port Streamlining

- **Implement price reductions across main port provided services**
 - **Institute flat fee for service with corresponding SLAs**
- **Increase coordination between customs clearance and cargo arrival**
- **Increase efforts to improve alternative throughput options (Port of Phnom Penh, road thru HCMC) – increase competition**

Customs Broker/Shipping Agent Industries

- **Establish capacity building program for in-country providers**
 - **Licensing, Certification, Training**
- **Eliminate KAMSAB “Agent of Record” monopoly status**

ICA & Value Chain analysis helped form part of a platform for a sector-wide approach

Removing Impediments

Building Institutions

Voice & Accountability

Capacity

Immediately Actionable

Short- to Medium-Term

Longer-Term

	Trade Facilitation	Governance of PPI		
	Remove impediments to diversification			
	Reposition CamControl	Leveraging Private value chains		Accelerate Leasing
		Institutional Learning – Business Associations		
		Strengthen Rule of Law		

Risks

- **Use multiple datapoints before reaching conclusions**
 - Value chain analysis can be influenced by participants
- **Generalize carefully**
 - Not all value chains will look the same in each country
- **Be aware of tendency for state to want to intervene in private value chains**

Conclusions: Combining Value Chain and ICA Raises Impact

- **Value chain worked well as an analytical tool**
 - Helped to identify non-state barriers in specific chains
 - Helped provide a holistic view of processes and institutions – the way the private sector sees it
- **Value chain as governance model**
 - New Institutional Economics - Coase, Williamson, North
 - Many developing countries lack “rule of law” to enable impersonal exchange
 - Value chains deliver their own governance: quality, cost and delivery requirements and incentives
 - A form of social capital
- **ICA commanded a broader audience, eventually including the PM, a necessary prerequisite for cross-agency reform**
- **Combined ICA / Value Chain helped make the link between broad constraints such as corruption and specific processes**

