



private sector | development

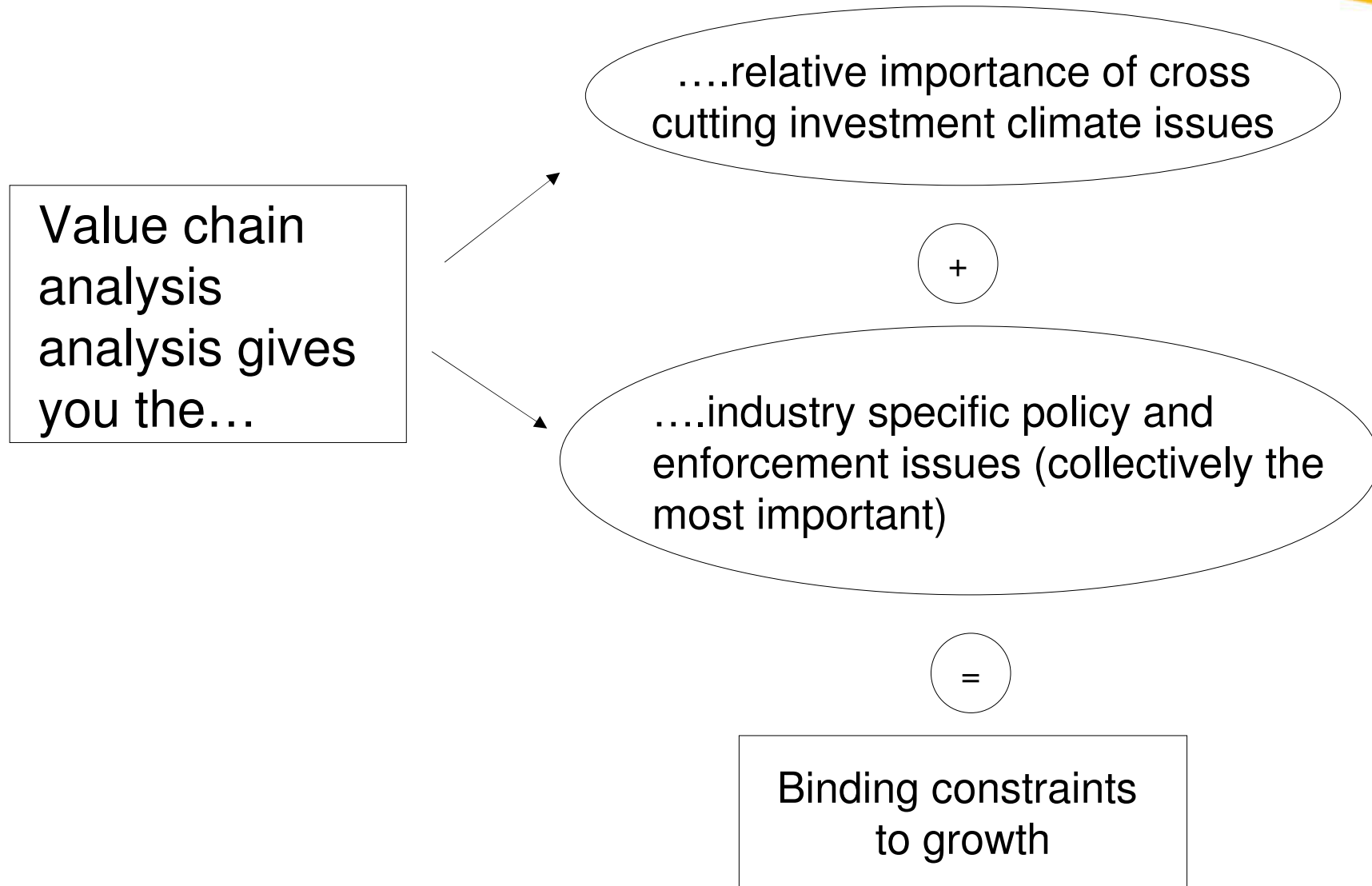
Value chain analysis: the key to competitiveness and growth

**Uma Subramanian
- Vincent Palmade**

**FIAS- World Bank and IFC
Washington DC**

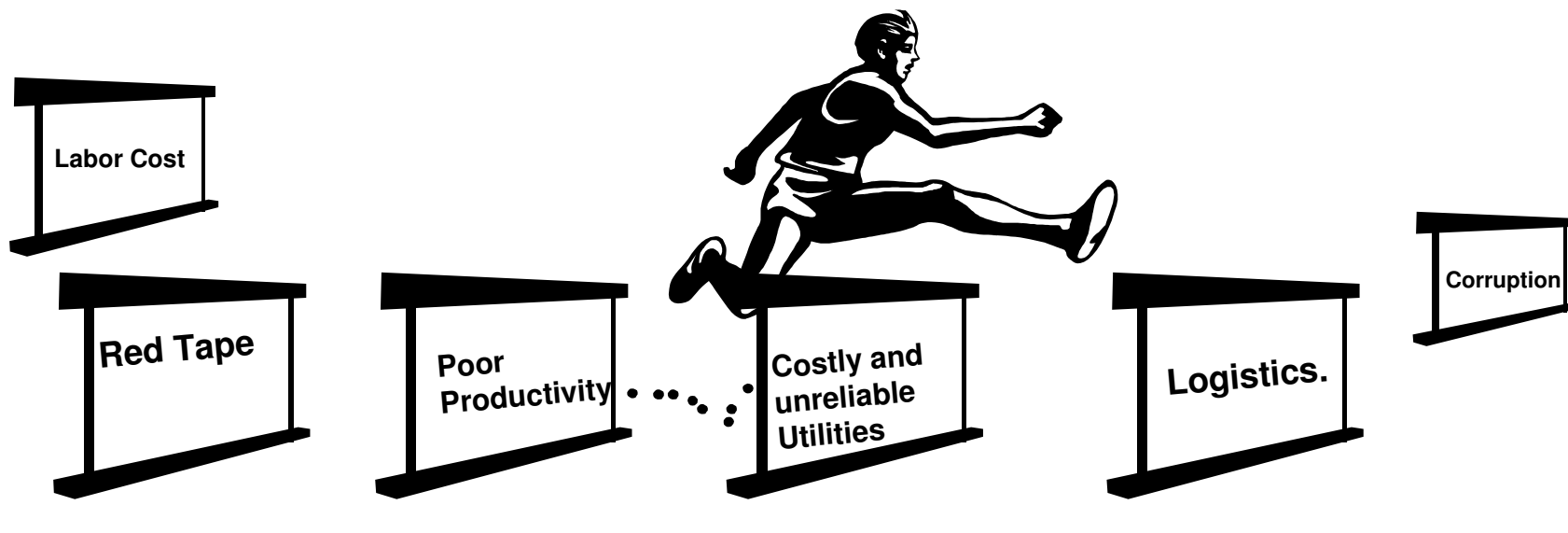
**Presentation for the International Conference on
Reforming the Business Environment
November 2005**

KEY MESSAGE



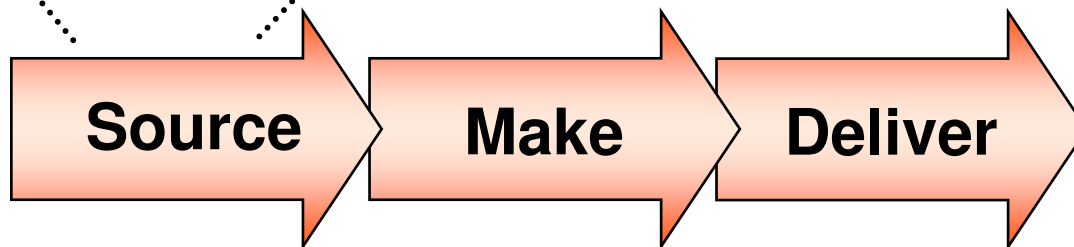
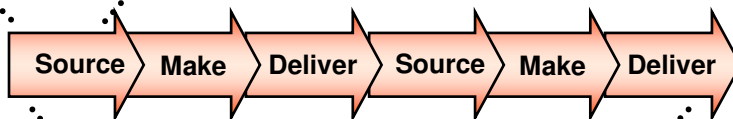
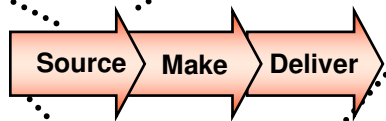
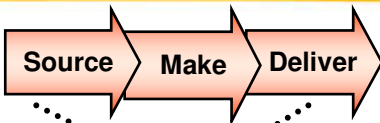
Development Objectives

Competitiveness = f (Input Costs, Transactions Costs, Productivity)

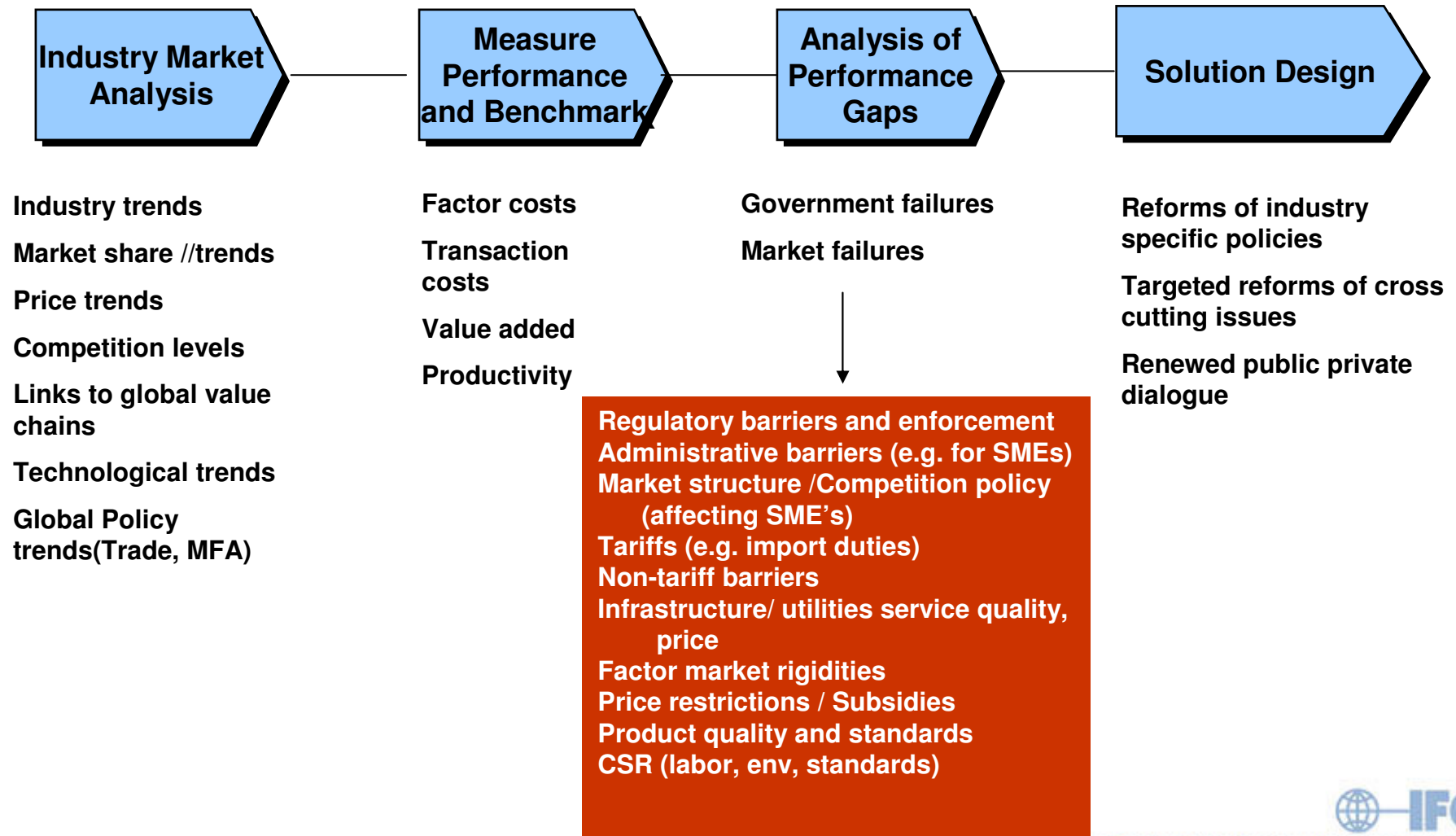


Catalyze policy and institutional reform through addressing concrete gaps or issues affecting competitiveness

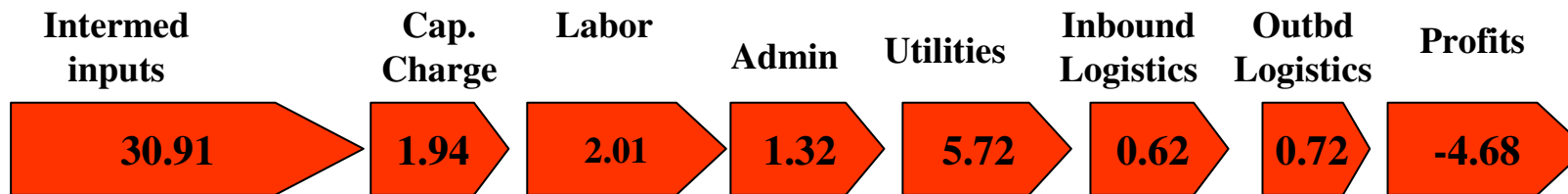
Value Chain Analysis



Elements of the Value Chain Analysis



Value Chain Distribution of Costs Nigeria Wax Print Textile (mill Naira)



↓
Export subsidies

↓
High cotton price
Cotton Yields Kg/ha
World : 600
Nigeria 180

Cotton Costs (USD per kg)
Nigeria 1.27
Kyrgyz= 0.32
China 0.59

↓
Ratio of mgmt cost to lab close to 1

↓
High labor costs (US cents/hour)

Nigeria	92.31
India=	40.6
S.Africa	222.0
Indones	34.33
China	57.03
Pakistan	38.79
Kenya	66.0

↓
High Utility costs (US cents/KWh)

Nigeria	17.1
India=	18.7
S.Africa	5.0
Indones	3.65
China	6.04
Pakistan	6.6
Kenya	7.0

High sourcing costs for dyes/chem imports

Delays resulting in capital carrying charges

Issues vary in importance across sectors and across chains

Value Chain	Shrimp	Leather	Textile	Cassava Starch
Target Markets	EU	EU (Italy), China	ECOWAS/ Domestic	Domestic
Policy uncertainty	High	High	Very High	Medium
Value added for SME suppliers	Medium	High	High	High
Raw material: Quality, costs and supply	High	High	High	High
Financing charges	High	High	High	High
Labor: cost. Skills	High	Medium	High	Medium-low
Management costs	High	High	Medium	Medium
Power (cost and quality of service)	Low	High	High	High
Fuel Oil	Very High	High	Medium	Low
Regulatory Processes Admin. barriers	High	High	High	High
Trade logistics(customs, ports)	Medium-High	Very High	Extremely High	Low
Transport links	Low	High	Medium-High	Very High
Status	Uptrend	Reversal to Uptrend	Near extinction	Nascent

INDIA – SYNTHESIS OF CASE STUDIES

	Automotive	Steel	Apparel	Retail Banking	Retail	Housing Construction	Software
• Macro conditions	X	X	X	X	X	X	X
• Judiciary system	X	X	X	○	X	○	X
④ • Tax system	X	○	X	X	○	○	X
③ • Government control	X	●	X	●	X	X	X
• Capital market	X	X	X	X	X	○	X
• Labor market	X	○	○	X	X	X	X
② • Land market	X	X	X	○	●	●	X
① • Product markets	● → ○	●	●	○	●	○	○
• Infrastructure	X	X	○	X	X	○	X
• Education	X	X	X	X	X	X	X

● Very important ○ Important X Secondary

Source: McKinsey Global Institute

THE MANY WAYS BY WHICH GOVERNMENTS DISTORT PRODUCT MARKETS

Industry specific policy issues

- Explicit trade barriers (quotas and tariffs)
- Non tariff trade barriers (customs, standards)
- Restrictions to FDI
- Licensing restrictions
- Restrictions on prices and services
- Inadequate standards (health, CSR)
- Government subsidies
- Government procurements
- Intellectual property rights
- Concession rights (mining)

Enforcement issues

- Unequal enforcement of industry specific policies
- Unequal enforcement of taxes
- Unequal enforcement of labor regulations
- Unequal access to (government) land
- Unequal access to loans from state-owned banks
- Unequal access to public infrastructure
- Unequal access to government provided energy
- Unequal access to and treatment by judiciary

INDUSTRY LEVEL ANALYSIS AS CATALYST TO REFORMS: INDIA IS LIFTING FDI BAN IN RETAIL

Arguments against reform

- “Modern formats are for the rich”



Counter-arguments based on microeconomic analysis

Price of food would be 15% lower in modern discounters with equal tax enforcement



Modern discounters have organized free shuttle services to slums

- “We will lose too many jobs”



Employment in the retail sector has grown in all the developing countries where modern formats have grown

- “Retail sector is not a key engine of economic growth”



Competitive retail sector drives productivity growth in one-third of the economy (e.g. wholesalers, food processors)

Indian Government announced its intention to remove the restriction

Source: Interviews; McKinsey analysis