ValueLinks Module 10
Policy instruments

ValueLinks 2.0

1. Setting boundaries
2. Chain analysis and strategy
3. Value chain strategies
4. Programs and projects

5. Business models
6. Business linkages
7. Services
8. VC Financing
9. Quality and standards
10. Policy instruments

11. Managing data & monitoring

Solutions for improving the value chain
Regulations and VC policies

Contents

1. Policy instruments in the context of VC development
2. Supporting private initiatives addressing policy issues

The business environment

Elements of the business environment

- **National economy**: Inflation / interest rates / exchange rates / integrity and accessibility of the judicial system / costs of establishing a business and securing property rights, taxes

- **Subsector (e.g. food)**: Distribution of land & water / accessibility of public goods (infrastructure) / environmental and resource degradation

- **Value chain**: Specific Inputs → Primary producers → Logistics Industry → Traders → Retail

- **Degradation**
The influence of the business environment

Market regulation
- The European food law regulates traceability and hygiene rules and minimum residue levels for all food products, enacted in national laws. Between 0.5 and 2.0% (in case of fish and fresh produce) of imports are rejected because of non-compliance.

Property rights
- Uncertainty over land rights is on the rise in several West African countries as the process of land titling tends to simplify customary rights and access to land registers is skewed.

Public administration
- Export clearance charges for a 40 ft container in Cambodia are 1126 US$, as compared to 255US$ in Hong Kong.

Policy instruments matrix

<table>
<thead>
<tr>
<th>Level</th>
<th>International</th>
<th>Regional</th>
<th>National</th>
<th>Sub-National</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Economic policy</td>
<td>Social policy</td>
<td>Environment policy</td>
<td></td>
</tr>
<tr>
<td>Regulation International Agreements</td>
<td>WTO Trade agreements</td>
<td>ILO Convention on social security standards</td>
<td>CO2 emission targets (UNFCCC)</td>
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<tr>
<td>Voluntary Guidelines</td>
<td>UN Principles for Responsible Investment (PRI)</td>
<td>ILO labour standards, fair trade labels</td>
<td>Roundtable on Sustainable Palm Oil</td>
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<tr>
<td>Market-based Regional incentives/taxes</td>
<td>EU agriculture subsidies</td>
<td>EU carbon trade system (UNFCCC)</td>
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<tr>
<td>Regulation Regional Agreements</td>
<td>EU common market, Currency Unions (EURO/UEMOA),</td>
<td>EU rules on social security coordination</td>
<td>EU environmental standards</td>
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<tr>
<td>Voluntary</td>
<td>ASEAN Declaration on Social Protection</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Market-based Using &amp; creating markets</td>
<td>Fertilizer subsidies for small farmers; tax breaks for investors</td>
<td>Labour market policies</td>
<td>Electricity feed-in tariffs from renewables</td>
<td></td>
</tr>
<tr>
<td>Regulation Laws, restrictions, standards</td>
<td>Competition law, import duties</td>
<td>Labour law</td>
<td>National parks</td>
<td></td>
</tr>
<tr>
<td>Voluntary Use of labels and certificates</td>
<td>Corporate responsibility initiatives</td>
<td>Child care provided by firms</td>
<td>Energy efficiency network initiative (D)</td>
<td></td>
</tr>
<tr>
<td>Market-based Local incentives, subsidies</td>
<td>Communal business tax</td>
<td>Private hospital subsidies</td>
<td>Payments for services like garbage collect.</td>
<td></td>
</tr>
<tr>
<td>Regulation Local regulations</td>
<td>Business permits and registrations</td>
<td>Social housing, rent price controls</td>
<td>Nature park access restrictions</td>
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<tr>
<td>Voluntary Local labels and certificates</td>
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</tbody>
</table>
### Growth policy instruments

<table>
<thead>
<tr>
<th>Policy instrument</th>
<th>Type</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>Special Economic Zones</strong></td>
<td>Regulatory</td>
<td>Areas governed by business and trade laws that are different from the rest of the country (free trade/export processing zones).</td>
</tr>
<tr>
<td><strong>Tax reductions</strong></td>
<td>Market-based</td>
<td>General reductions on taxes or customs duties increase the return on investment on foreign direct investment.</td>
</tr>
<tr>
<td><strong>Linkage policies</strong></td>
<td>Regulatory</td>
<td>Expand a country’s initial VC activities down- or upstream. E.g. local content requirements to force foreign firms to source inputs locally.</td>
</tr>
<tr>
<td><strong>Infrastructure policies</strong></td>
<td>Market-based</td>
<td>Provision of specific infrastructure according to specific VC needs.</td>
</tr>
<tr>
<td><strong>Business start-up procedures</strong></td>
<td>Regulatory</td>
<td>Simplified (online) business registration, reduced minimal capital requirements, creation of one-stop shops.</td>
</tr>
<tr>
<td><strong>Value chain finance</strong></td>
<td>Market-based</td>
<td>Provision of credit, savings, guarantees or insurance to or among value chain actors.</td>
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</tbody>
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### Infrastructure policies

**Providing infrastructure and facilities**
- Roads, port facilities
- Facilities at market places

**Strengthening of public support service providers**
- Research and technology institutes
- Export promotion
- Professional education, skills development
- Subsector development programmes
Examples of environmental policies

<table>
<thead>
<tr>
<th>Market-based</th>
<th>Regulatory</th>
<th>Voluntary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees</td>
<td>Laws</td>
<td>Standards</td>
</tr>
<tr>
<td>Charges</td>
<td>Regulations</td>
<td>Codes of Conduct</td>
</tr>
<tr>
<td>User Taxes</td>
<td>Fines</td>
<td>Labeling</td>
</tr>
<tr>
<td>Tax Exemptions</td>
<td>Liability for Damages</td>
<td>Certification</td>
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<tr>
<td>Tradable Permits</td>
<td>Prohibitions</td>
<td>Roundtables</td>
</tr>
<tr>
<td>Subsidies</td>
<td>Permissions</td>
<td>Alliances</td>
</tr>
<tr>
<td>Revenue Sharing</td>
<td>Development Plans</td>
<td></td>
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<tr>
<td>Payment for Ecosystem Services</td>
<td>Sector Programs</td>
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<td></td>
<td>Intersectoral Planning</td>
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Decent work is defined by the ILO and endorsed by the international community as productive work for women and men in conditions of freedom, equity, security and human dignity.

The Decent Work Agenda focuses on four pillars:

1. Employment creation
2. Social protection
3. Rights at work
4. Social dialogue
Regulations and VC policies

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Consequences for VC projects

Pro-poor VC development depends on the business environment and on sub-sector-wide framework conditions

- Need to adopt an active economic development policy integrating different fields of policy-making (trade, public administration, environment & resource use, land management, regional planning, quality standards)
- React to (global) market change AND improve supply side conditions
**Principles addressing policy issues**

**Principles:**

- Establish the link between VC development needs and the business environment/economic framework conditions
- Involve interested parties from the private sector and try to form alliances
- Operate issue-based and demand-driven, starting from short-term political projects
- Allow political reform to result from transparent process
- Counterbalance the tendency of government to intervene in VC
**Supportive action**

**Fostering Public-Private Dialogue**
- Lobby meetings of private sector leaders with the Minister/Government
- VC Stakeholder meetings and conferences
- Establishment of a regular public private forum

**Private sector lobbying**
- Improve legal framework (protection of property, regulation of labour and capital markets, regulation of standards, simplified tax system, etc.)
- Reduce bureaucratic impediments to business and trade

**Developing coherent sector policies**
- National Agricultural Investment Plans
- Commodity specific policies, e.g. National Cocoa Policy

**Summary: Main lessons to remember**

- Governments are lead actors in VCD. The organizational formats of public VCD policies have been covered in module 4. Module 10 presents regulatory solutions that need to be achieved to realize the respective strategic options discussed in module 3.
- Policy instruments are needed to secure the economic, environmental and social sustainability of VC development.
- Economic policy includes instruments supporting economic growth, the regulation of property rights and trade.
- Environmental policy includes “command and control” instruments placing limits on the utilization of natural resources as well as financial incentives regulating resource use.
- Social policy includes labor standards, active labor market interventions, and social services.
- VCD programs can influence policy decisions by public-private dialogue, by private sector lobbying and by advice on coherent industry and VC policies.