

*SED Workshop 2007*  
Making Value Chains Work  
for the Poor

**Thematic overview**

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Gerzensee, 11 January 2007

# Outline of this presentation

- Definitions and distinguishing features
- Frameworks for VC analysis
- From analysis to strategies for action
- Challenges, gaps and opportunities
- Important websites in VCD

# Definition of a value chain

- the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use (Kaplinsky and Morris for IDRC, 2001)
- implies generation of value added throughout the chain ... which is required in order to achieve a social impact (Springer-Heinze, GTZ, 04) *(underlining added to both)*

# Distinguishing features of VCD

- Pulled by market demand (“you can’t push a chain”) although often as a snapshot, and often for export rather than local consumption
- Historically assisting the poor as small-scale producers (often in a cluster), but now evolving to consider the poor as workers too
- Inter-disciplinary – may include specialist finance, trade, legal issues, infrastructure
- Can also include direct consideration of networks, hierarchies, power relations

# Frameworks for VC analysis

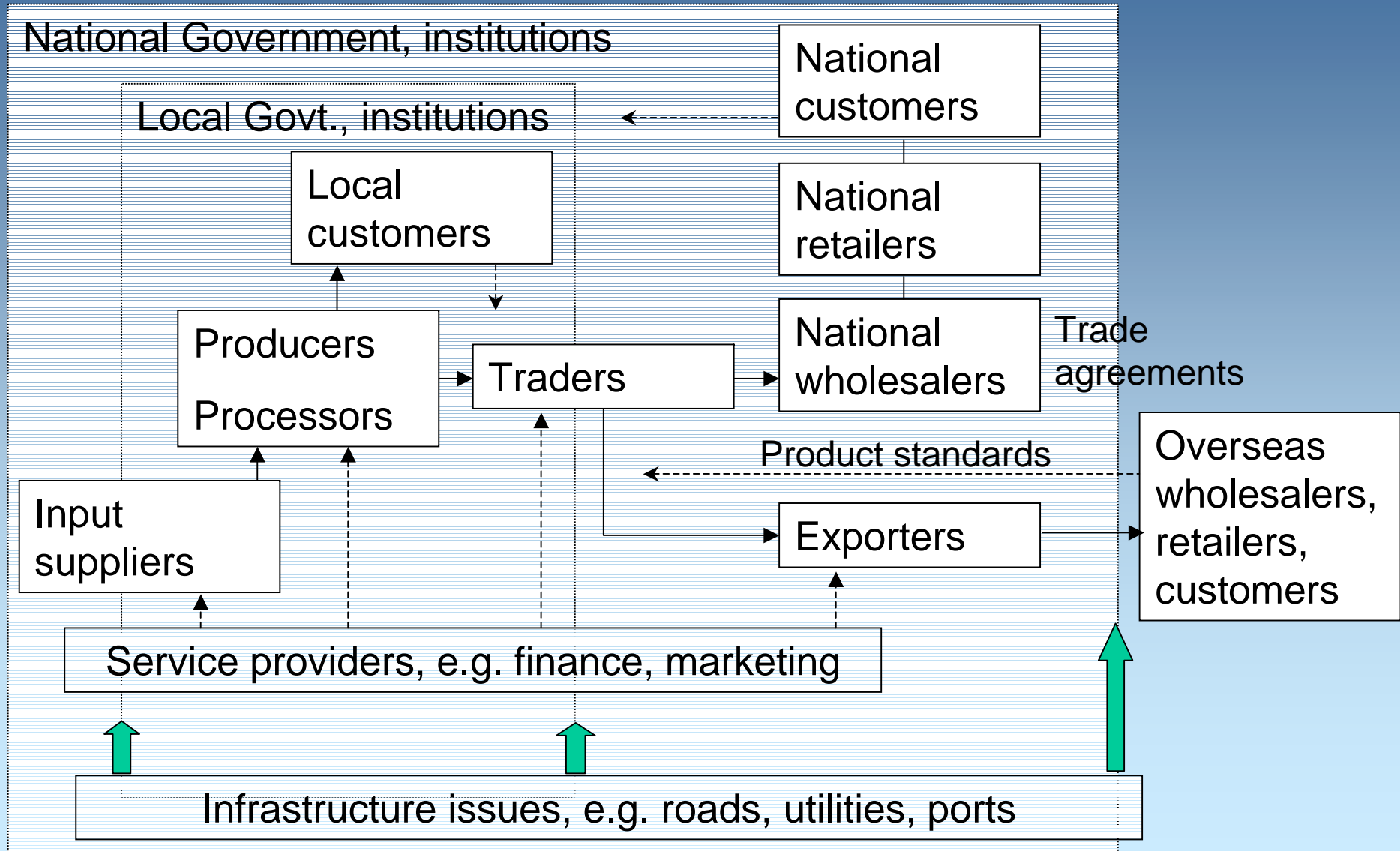
The academic community and others have analysed existing value chains by:

- Product, services (eg GEMINI map, filière)
- Margins along chain, pro-poor potential
- Firm (eg Unilever Indonesia)
- Competitiveness (eg Porter)
- Governance (eg Schmitz, Gereffi)

but less often by:

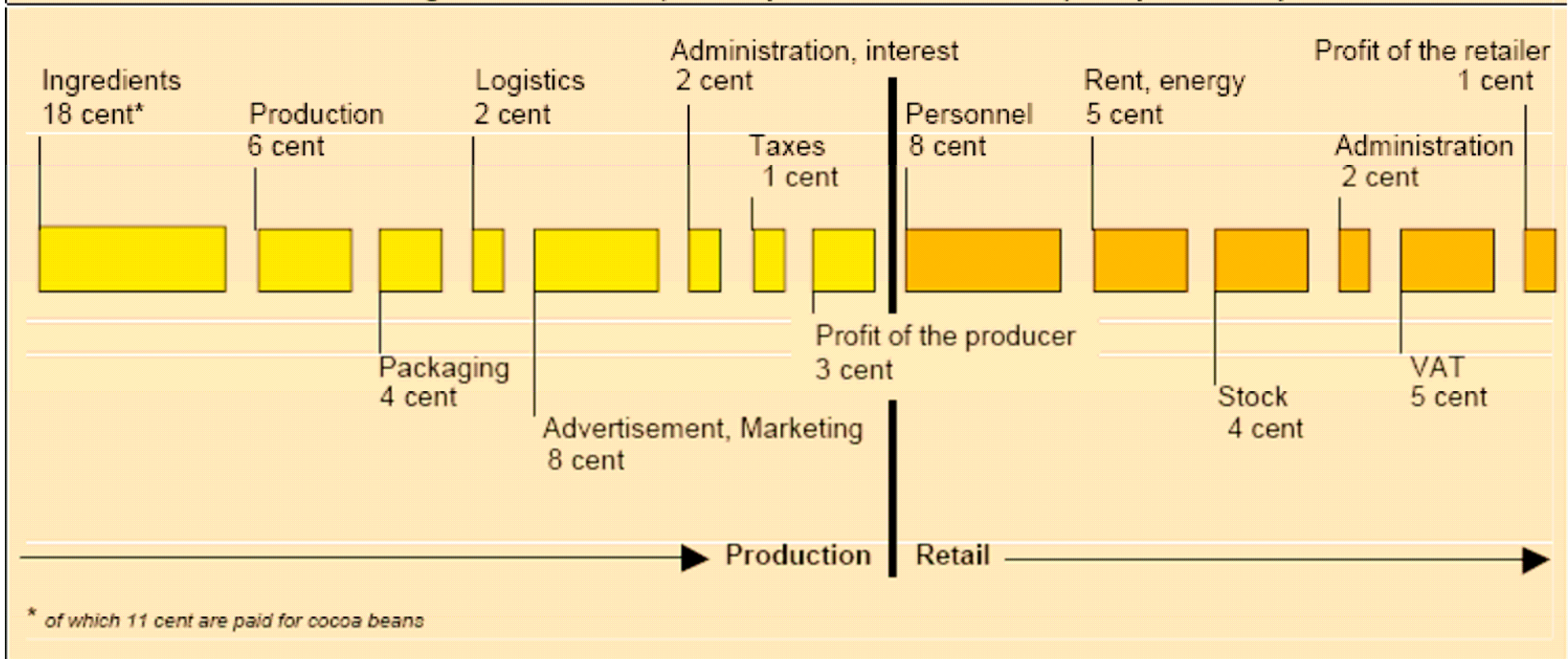
- Strategy choice for intervention
- Evolution over time

# Generic value chain map, by product



# Analysis of margins along the chain (the case of a bar of chocolate)

Figure 1.1  
Value chain for a standard 100gr. Chocolate bar (with 45 percent cocoa content) – supermarket price: 69 cent

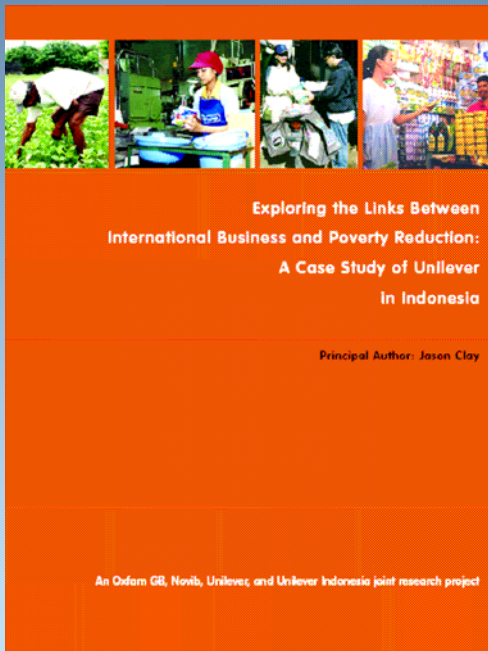


Source: McKinsey Wissen, 2004: 49

As cited in ILO Guide, 2006

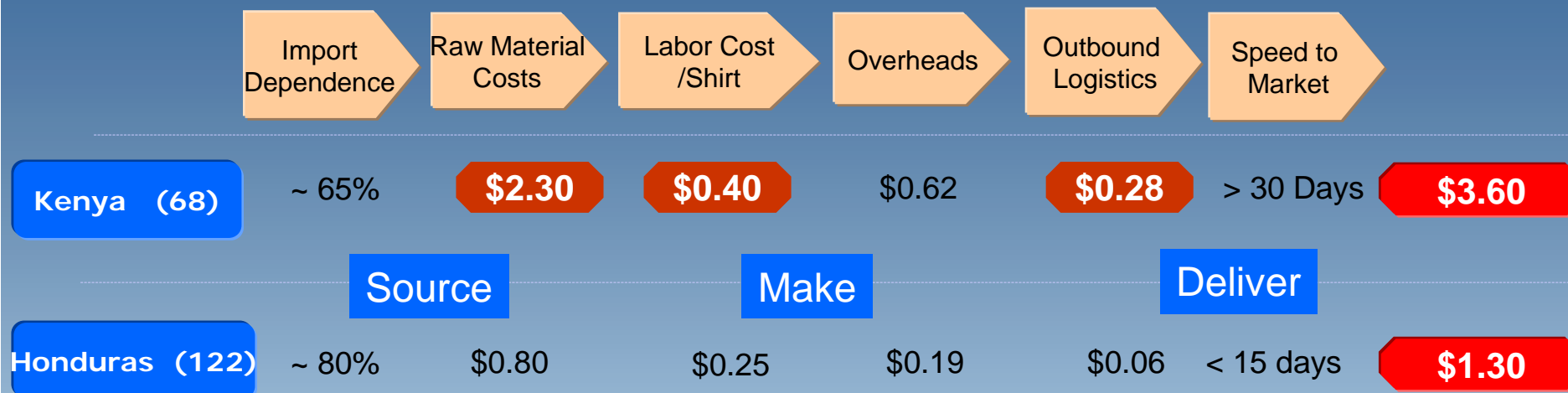
# Analysis of VC around a firm

## Unilever in Indonesia



- \$984m p.a. sales of soaps, foods, mostly to local market
- UI core workforce: 5,000
- 300,000 FTE jobs generated in supply and distribution
- \$421m value added along the chain (outside UI)

# Analysis of competitiveness: T-shirt manufacture in Kenya and Honduras



### High Tariffs:

Honduras = 9.6%  
Kenya = 21.9%

### Impact of Rules of Origin

Exacerbated by location and therefore transportation costs

### High Cost of Logistics

Honduras = \$ 658 / TEU  
Kenya = \$1475 /TEU

### Lengthy Customs Clearance for Imports:

Honduras = 4 days  
Kenya = 15 days

### Lower Wages Offset by Lower Labor Productivity

Honduras: \$12/ labor day  
Kenya: \$9.40/ labor day

Honduras: 45-50 shirts/day  
Kenya: 20-25 shirts/day

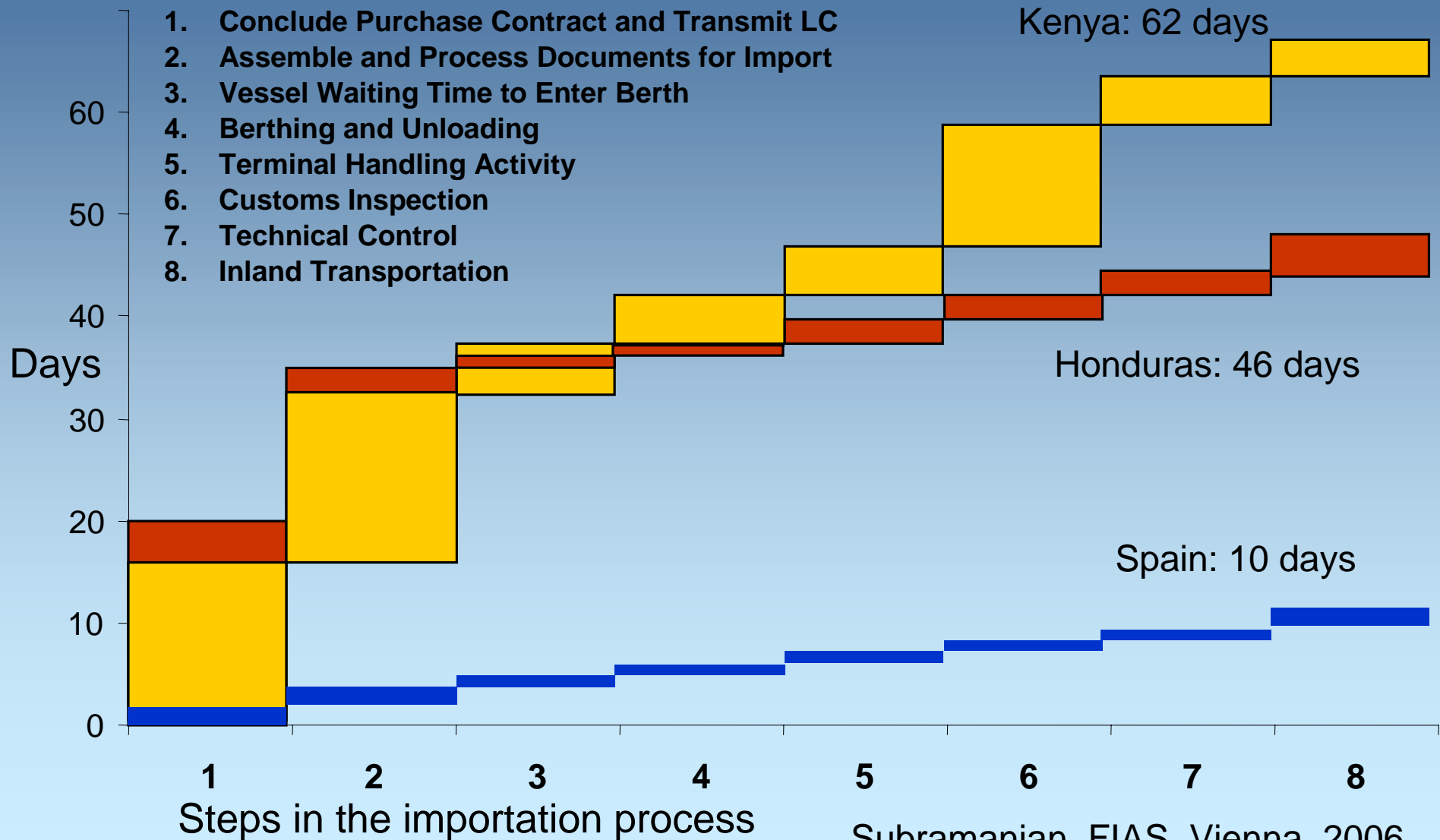
### Lengthy Customs Clearance For Exports:

Honduras = 1 day  
Kenya = 2 days

### High Incidence of Rejects:

Honduras: <1%  
Kenya: >3%

# Analysis of competitiveness: Import Procedures in Kenya, Honduras and Spain



# Types of value chain governance

- hierarchy (lead firm owns large parts of the value chain)
- captive networks (buyer controls chain to ensure performance)
- balanced networks (reciprocal dependence)
- arm's length market relations (standardised product, switching costs are low)

# From analysis to strategies for action (GTZ, 2006)



# From analysis to strategies for action: Options

- Research, stakeholder consultations, carefully targeted interventions
- ‘Honest broker’ convening process led by local demand (eg of cluster)
- Matching grants / challenge funds to encourage lead firms to take new risks
- Benchmarking and ranking, to generate demand for change, reform, up-grading

## ... and some results

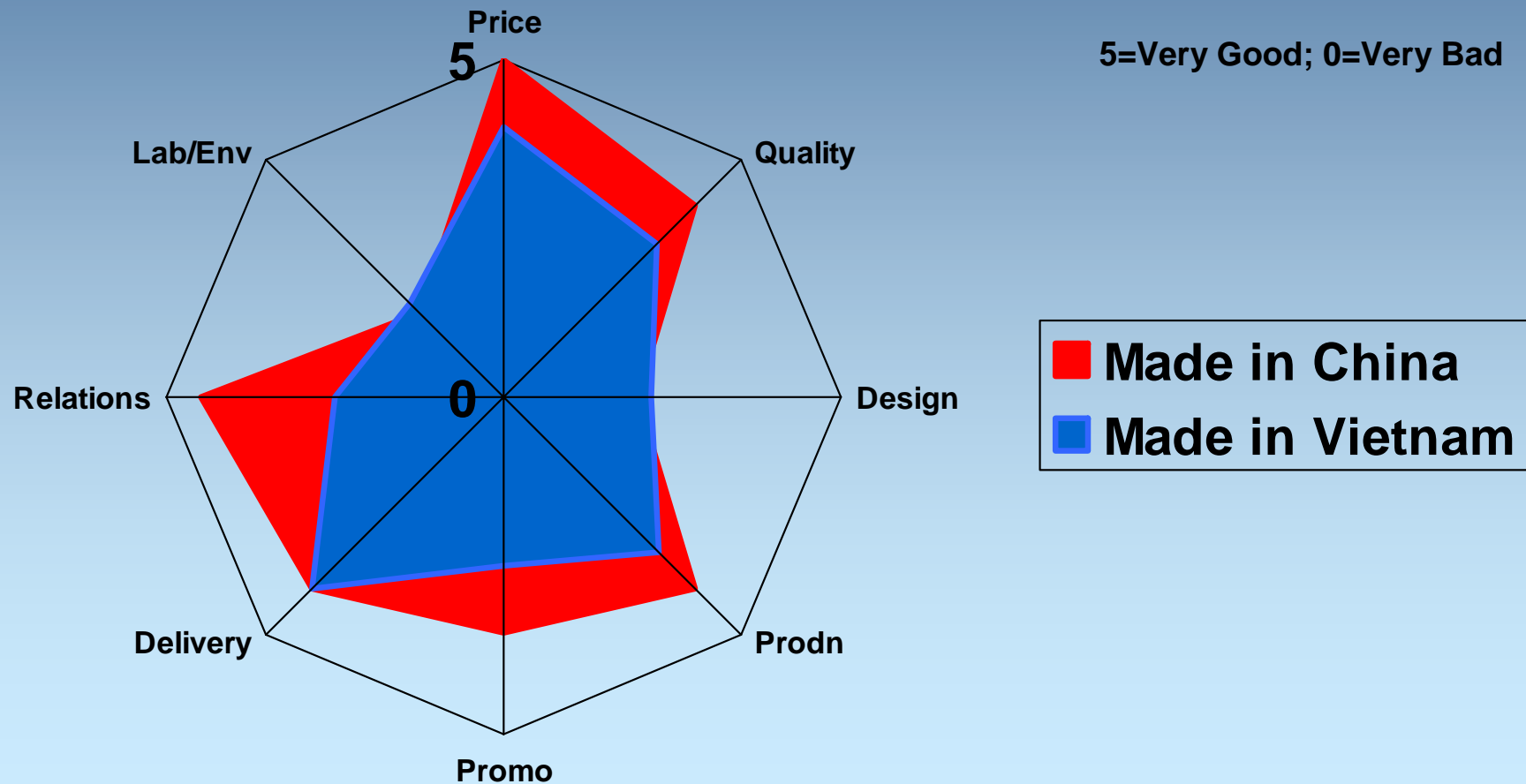
<b>Partners</b>	<b>Country</b>	<b>Agency</b>	<b>Product</b>	<b>Reported results</b>
International buyer	Vietnam	GTZ	Organic catfish	Exports grew from 70 t ('04) to 1,600 t ('06); price stable
Exporter	Ghana	DFID	Baskets	Rural incomes increase €15,000 p.a.
Lead producers	Mexico	IBM, HP	Software	22,000 employed, mostly in micro-enterprises
Input suppliers + lead processors	Malawi	DFID	Cotton	180,000 smallholders increased production from 16,000 t ('02) to 43,000 t ('04)
Catalysing hub	Kenya	DFID	Dairy	Sales now worth \$6.3m pa for 13,000 dairy farmers
Producer groups	Kenya	USAID	Avocado	New buyer increased income by 700% for 1,027 producers

# Some challenges in VCD

- Assuring funders of impacts and outcomes, in rapidly changing, diverse global markets
  - Increasing role of large traders, supermarkets
  - Tightening food standards, on-line tracing
  - Increasing competition from China, India +
- Current interest in ‘level playing field’ reform of the business environment, budget support
- Developing foundation markets (information about distant markets, training, consulting)

# Competitiveness and the view of buyers

## Wood furniture in Asia



# How do value chains develop over time?

## The example of Chilean salmon

Dates	1978-85	1986-1995	1996-
Stage	<b>Learning</b>	<b>Maturing</b>	<b>Globalised</b>
Production	to 900 t	to 143,000 t	to 400,000 t
Price, \$/kg	9-10	4-5	2.8-4.5
Main aim	Survival of the fish	Volume	Productivity
Main market	Local elite	Frozen to Japan	US, Japan, Europe +
Commercialisation channels	Direct sale, cooperatives	Brokers, national association	Supermarkets, wholesalers, strategic alliances
Technological challenges	Experimental; how to fatten	Linkages, quality certification	National egg production, automation, vaccines +
Type of producer	SMEs	SMEs with foreign groups	Large enterprises, some TNCs
Type of supplier	Few, precarious	Local, becoming professional	Specialised local, TNCs
Employment			30,000 (+15,000 indirect)

Adapted from IADB, 2004

# Some opportunities in VCD

- Convergence of pro-poor analysis and competitiveness; also of VCD and agricultural development
- Sectoral BE reform, benchmarking
- Value chain finance
- 'New' value chains (eg IT outsourcing)
- Building capacity for innovation (eg market research, B2B on-line)

# Important websites on VCD

- [www.sdc-valuechains.ch](http://www.sdc-valuechains.ch) (Community of Practice on Value Chains in Rural Development – more detail to follow)
- [www.value-chains.org](http://www.value-chains.org) (inter-agency database with experiences of analysis, implementation)
- [www.Enterprise-Development.org](http://www.Enterprise-Development.org) > Working Groups > Linkages and value chains WG of the Donor Committee for Enterprise Development
- [www.ids.ac.uk/globalvaluechains](http://www.ids.ac.uk/globalvaluechains) (for research by Universities: IDS / MIT / Duke)
- [www.microlinks.org](http://www.microlinks.org) (USAID micro-enterprise)