Value Chain Development in Ethiopia: a message to the donor community
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Short introduction to professor Woody Maijers
I want to thank the DAG organization and SNV in particular for inviting me for this keynote speech. I see very positive changes with respect to the usage of the value chain concept. Every time I visit Ethiopia I am very much surprised to witness the speed with which the concepts are being adapted here. Clearly, Ethiopia is ready for up scaling. (slide 2) This can only be achieved when the actors involved in this scaling up process are well aware of and skilled enough about the concept itself, the chain innovation process and how the enabling environment could be supportive. These three items will be the key focus points of my keynote.

SUPPLY CHAIN versus VALUE CHAIN: Dilemma? Or a challenge

{slide 3}
All actors involved in the production of and selling of products like tomato, meat, milk etc. are part of the value chain. This also includes the end-consumers and the organizations handling the waste(by) products. By definition: a value/supply chain comprises of interlinked value-adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantage. This means that businesses within the value chain are involved in handling and adding direct value or consuming the product and also the service network indirectly involved in the production (for eg., quality control, ICT, financial partners (banks, insurance, and training and research). (slide 4)

Let me explain some drivers for the development of the so called modern supply chains:

1. More and more consumers live in the cities. This migration is/will create a need for effective and efficient food supply chains. Feeding cities is/will be a huge challenge. (slide 5)
2. The need for the reduction of import and to achieve a higher level of self-sufficiency at a national level.
3. The growing middle class population with more money to spend. (Slide 6) There is a direct link between more money to spend and the need for more animal proteins, higher added value product’s like juices, ready to eat meals, one stop shopping (retail) etc. This type of consumption demands not only a higher added value but also a higher level of quality.
4. More retailers: Why more retail in Ethiopia? Urbanization, gender women have less time for shopping and cooking, retail will lead to reduction of food price and losses. Supermarkets have standards to reduce procurement, coordination and transaction costs.
5. The growing population. To feed the Ethiopians the first step is to improve productions and also to reduce the post-harvest losses especially in fresh products. Focus on logistics (transport and warehousing) and information (what is available, where is it available and the information on volumes and transparency in pricing along the food chain). And the next step (strategy) is to assure the quality demands in an integrated way (quality in terms of food safety and extra food quality). And finally develop higher added value product concepts for the higher end national and export markets. (Slide 7)

1 With inputs from dr. Vijayender Reddy Nalla. (Managing director or RVJ Eurasia food and agro B.V. Netherlands. http://www.rvjservices.nl/)
So we see a shift of production orientation from local-for local towards national (and international) markets leading to a growing distance between the end user and the producers. The above phenomena has made it more and more misty for the value chain partners. A typical export chain can consist of more than 30 actors (private and public).

**Supply chain versus Value Chain**

Maybe you have noticed that I use the term supply chain and value chain. The supply chain concepts are supply driven and are not completely value/demand driven. (With a supply driven approach every company looks to maximize its capacity utilization and pass the products to the next downstream player within the chain instead of focusing on the main objective which is to maximize the satisfaction of the end user). (slide 8)

The core operational elements like forecasting, inventory, production planning are designed with an objective to maximize capacity utilization (this leads to huge inventories along the entire chain, higher risk of uselessness (left-over items) and all other challenges associated with inventories). The risk of post-harvest losses is also quite huge in this case.

Mostly, the supply chain elements do-not take into consideration all the businesses, processes, incentives of the actors etc. from product origination to destination. Hence, it is very likely that some/many players do not add direct/real value to the product or core activities of the product/service chain. But actually add costs and create non-transparency for the chain actors.

In supply driven systems the focus is rarely on quality delivery and quality improvement and mostly on capacity utilization within a given quality specification range (low end).

The focus is always on pie-sharing rather than on pie-growing. Almost always the incentives are not aligned fairly (e.g., In most cases the farmer who puts in the most effort for the longest period of time gets the least return. In contrast the middlemen take a greater share of the pie with least efforts for a shorter time period).

In essence, the supply chains are push based systems. By definition the organizations within the chain work to maintain the status-quo rather than to innovate.

**Value chains the next step**

So we need another approach. The starting point of the value chains is market intelligence and they are demand driven. What are the needs in the market (consumer, export market, major clients like retailer or food industry). And define a strategy for chain development. It is important to define the decoupling point in the chain: who are my clients and what part of the chain is directly interlinked. Notice: the export market for dry commodities is obviously another client as a retailer for fresh products.

Value chain players organize/align the work among themselves based on market signals and based on their capabilities. They are always on the look-out to build new and complimentary capabilities (e.g., aggregators and traders focus to build primary processing, packaging and other value added capabilities)

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2 Source: The above summary is based on the book “delivering performance in food supply chains” Wood head publishers, Mena, C & Stevens, G. 2010.

Hence, by definition value chains can be competitive only when they innovate and not by maintaining the status-quo. With innovation a larger pie is created which provides greater incentives to share which in turn fosters further innovation (as a result new and higher value products would come out of the chain. e.g., innovatively processed products (fresh fruits juices, smoothies etc.,) coming out of the fresh produce value chain). {slide 9}

The innovation drives the chain facilitates. There is a need to deliver quality (as desired by the market), continuous improvement and setting and upgrading the standards continuously.

The operational elements like forecasting, inventory, production planning and everything else are still very important. However, they are designed based on market-demand and not on capacities. In the case of Ethiopia depending on the type of product an optimal push-pull combination mechanism is used (e.g., raw material productions could be push-based because of seasonality, but value addition better be pull based. A competitive value chain identifies and works towards achieving the right trade-offs). The value chains survive and prosper on work alignment and incentive alignment. In essence, the value chains are by definition innovative, value & market-driven and follow an optimal push-pull mechanism.

**Competitiveness and competition**

The most important tenet of the value chain approach is to understand the process of building competitiveness and defining the competitive industrial sector correctly.

Let us try and understand competitiveness: Competitiveness of a product is defined by how your end-customer perceives your product on important parameters/attributes like quality/price/taste/aesthetics/shelf-life.

Now the next question we need to ask ourselves is: Can one company independently and without any inter dependence manage/control/deliver on all the above parameters that the end-consumer is looking for?

In this context it would be relevant to ask the following questions to get further clarity:

a) Can a processor deliver higher quality product if his raw-material or input supplier delivers sub-standard product of low quality?

b) Can the same processors deliver the right product of right quality at the right time in the right form for the right price without the right support from the downstream players and service providers (retailers, distributors and logistics service providers)?

The above analysis tells us that the success of a product is not in a single company’s hands but in the hands of each value-adding player within the chain. {slide 10}

In fact a company’s product is only as strong/competitive as the weakest link in his complete chain (UP AND DOWN STREAM). Hence, every company within the chain has an incentive to work not only for their improvement but also for the improvement of its chain partners.

**Competition**

If competitiveness can be achieved by having robust value chains how can the competition be between/among individual businesses? It must be between/among value chains. With some efforts in the right direction a company can replicate competitiveness of an organization but it is almost

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4 Source: Most of these ideas have been used from two important books. The first one is the book titled “Competing in a flat world” and the second one is from the book titled “The new age of innovation”.

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impossible to replicate the entire value chain and operate it with the same effectiveness day-in-and-day-out. This means business to business chains are competing.

Hence the objective should be:

**Not to extract incentive/s from our own chain partners but to extract the market share from other value chains and share the incentives with the chain partners so that every chain partner can improve their capabilities further.**

e.g., It is easy for one to believe that the market success of large food brands is because of its strength in its branding. But in this context it would be prudent to argue that it is the strength of the robust value chain (including branding of course) which is delivering the company the long-term competitiveness. That’s why food companies and retailers for strategic products invest heavy in partnerships. {slide 11}

In essence, the leading food companies are chain orchestrators because of its robustness of its **market driven value chain** which delivers the **innovative products as desired by its target customers**. They secure the whole chain from the source to the consumer and consider waste as an integral part of the chain. The chain orchestrator is for you as DAG partners an important entry point in developing improved or new value chains in Ethiopia.{slide 12} Plural, meaning more business to business value chains are need to create a competitive sector. Up scaling strategies are needed. A sensitive institutional environment is essential to stimulate growth. There is a crucial balance between private sector growth and public sector adaptation of needed changes like regulations and services. {slide 13}

**Challenges within the Ethiopian food value chain**

So let’s focus on the challenges within the Ethiopian food chain. Based on several studies for different product groups we can conclude:

1. Fragmented supply base leading to long and inefficient value chains
2. Lack of access to technology and knowledge at the farmer-level and processing level
3. Lack of tools to communicate and translate the market intelligence to the farmers and processors
4. Poor logistic infrastructure
5. Poor quality control mechanisms: wrong price incentives, incorrect quality standards. Do we need a dual system: one for the poor and one for the rich?
6. Lack of access to proper value chain financing channels
7. Mis-aligned incentives leading to conflicting behavior, low trust, low quality and volume, high prices
8. A focus on supply chains and not on value chains, not enlarging the pie, limited value creation
9. How to keep the farmers, small holders, small shops embedded in the future value chain? How to create a strong position of the small family business? {slide 14} Based on my experience I can foresee that within 5 years large international Value Chain actors (retailers, wholesalers, food industry, input suppliers) will take positions. We have seen it in the BRIC countries and former eastern European countries. They kick-out local shops, processors and farmers if you leave it to the market. On the other hand they invest huge monetary resources and bring and the expertise they would require for the success of their model.
10. How to develop a value driven retail system and develop the orchestrators in the value chain.

**Potential solution approaches**

The positive news is for most markets there is more demand (and growing) than supply. Secondly the improvement capacity is very large so the Return on Investment is promising. Thirdly several project cases show it is actual possible to transform the food chain to a value chain. It definitely is not an
easy task but a huge challenge. To change the focus, attitude etc in the food chains and sectors, the innovation approach should be based on system innovation: a systemic approach. (slide 15) When we agree on this approach, a whole interacting set of innovations, actions etc are needed. On the level of policy makers, private sector, farmers and the associations among all the actors within the chain. (slide 16) But also the implications for research, extension services, public services and financial institutions and you as facilitators of innovation processes at all levels. Traditional public and semipublic agencies have a limited role in this development. They lack expertise and can only support farmers with productivity improvement. Some could remain a food supply chain for non-tradables or certain commodities. For the rest of the chain a new service network of business development facilitators is needed. Other concepts, knowledge and skills are needed. (slide 17) You need within this DAG community an accepted framework for value chain development based on a multi stakeholder approach to step in to the next development phase: i.e., scaling-up

Some essential elements related to the development framework
This framework is based on supporting the usage and strengthening of the value chain orchestrator. (slide 18) This means a focus shift of the entry point for food chain development from the farmer downstream to the processor or logistic service provider (modern trader). In some cases it could be interesting to support a wholesaler or retailer to take the orchestrating role. A lot of actions are needed. Use the simple selection rule: will the market values your action or improvement? If not don’t do it. Focus on customer service, quality, low costs, shortening the value chain, reduction of transaction and coordination costs. When export is at stake, be aware of the license to deliver: Eurogapp and global food safety are joint efforts of international operating retailers and food industry to professionalize the value chain. More added value: select strategic commodities and products for retail and food industry. They are willing to invest more and more upstream for these strategic products. They try to embed the value chain partners in the preferred supplier relation network to reduce risk. If your products are not of strategic importance (commodities and non-tradables), focus on costs and predictable quality. I want to notice a large difference in capabilities between inland supermarkets and food industry and international supermarkets and industries or traders.

Concerning the complexity I want to recommend start with simple dry packaged products and later expand with fresh processed like dairy, fish, meat, then potato fruits vegetables. First focus on distributions channels in Addis then smaller cities. Be aware of the wide variety of services / issues to be developed (in random order): training, sales, market info, operational finance, input supply, product and packing innovation, community development, minimum price offer, volume contracts, post-harvest support warehousing, transport, quality control etc.

For all strategies, support in the infrastructure development of the value chain (B2B)$^5$ is of crucial importance. Key infrastructures: information systems to link the farmers to the market, logistics, quality assurance (including measuring). They are the back bone for all developments. The ROI$^6$ can be large with a big impact on the income position of the farmer and smallholder.

Support the development of a professional network of independent value chain developers and experts (consultants, extension service and researchers). Create a setting of experience and knowledge sharing. (slide 19) Develop up scaling tools to create more mass. Ask researchers to document cases and the relevant parts of the framework. Donors can create a level playing field in the chain by knowledge sharing and skills development (training) to empower the farmer and smallholder or processor.

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$^5$ B2B = Business to Business  
$^6$ ROI = Return On Investment
New governance structures are needed (B2B and B2G). A balanced change in the private and public sector is needed. This is also the field of the sector associations. **Strengthening the associations** based on market pull mission (and not protective lobby) can support the focus shift of food chains toward value chains. They can develop strategic intervention plans for the sector, prioritize the actions, mobilize the public and private partners etc.

**Innovation** in production, creating new value add products with the right technology intervention, new markets and concepts are essential to move forward. 

Develop **new financing mechanisms** and funding sources for value chain investments. The challenge will be to keep the generated added value within the value chain.

**The incentives alignment** for all the value chain players so that each player feels and wants to be a part of the value chain.

Create a **level playing field**, training and communities of practice, networks to exchange knowledge. Train the trainer programs (universities, colleges, extension service etc) to support capacity building at each level within the value chain and with the institutional environment.

**Suggestions for directives**

To conclude, private sector development and value chain development are strongly interlinked. The complexity is high. We here have a systemic innovation at stake. Meaning a multi stakeholders and multi-disciplinary arena with different clocks speeds related to decision-making. When the complexity is high, a common language is helpful to understand each other and this brings me to the first suggestion:

Within the DAG community an accepted framework for value chain development based on the principles of system innovation is needed.

Secondly the entry point of food chain development shifts downstream from the farmer towards the chain orchestrator. Consider the future role of the wholesaler and supermarket. Start pilots to find out what the true potential is.

My final suggestion would be, localize the knowledge of sector development programs and value chain development. Create and support the local business development service providers to take over the role of foreign DAG partners. For up-scaling the concepts a professional network of professionals is needed. {slide 19}

Success and thank you all for your attention. {slide 20}

Discussion: {slide 21}

**Further References**


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7 B2G = Business to Government


http://www.rvjservices.nl/downloads/Orchestration_Agri_Food_Networks.pdf