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Linking Trade & Value Chain Development

Jeanne Downing
EGAT/PR/MD

WHAT IS A VALUE CHAIN?

Global Enabling Environment

Global Retailers

Local / National Enabling Environment

Sector-specific providers

Exporters

National Retailers

Wholesalers

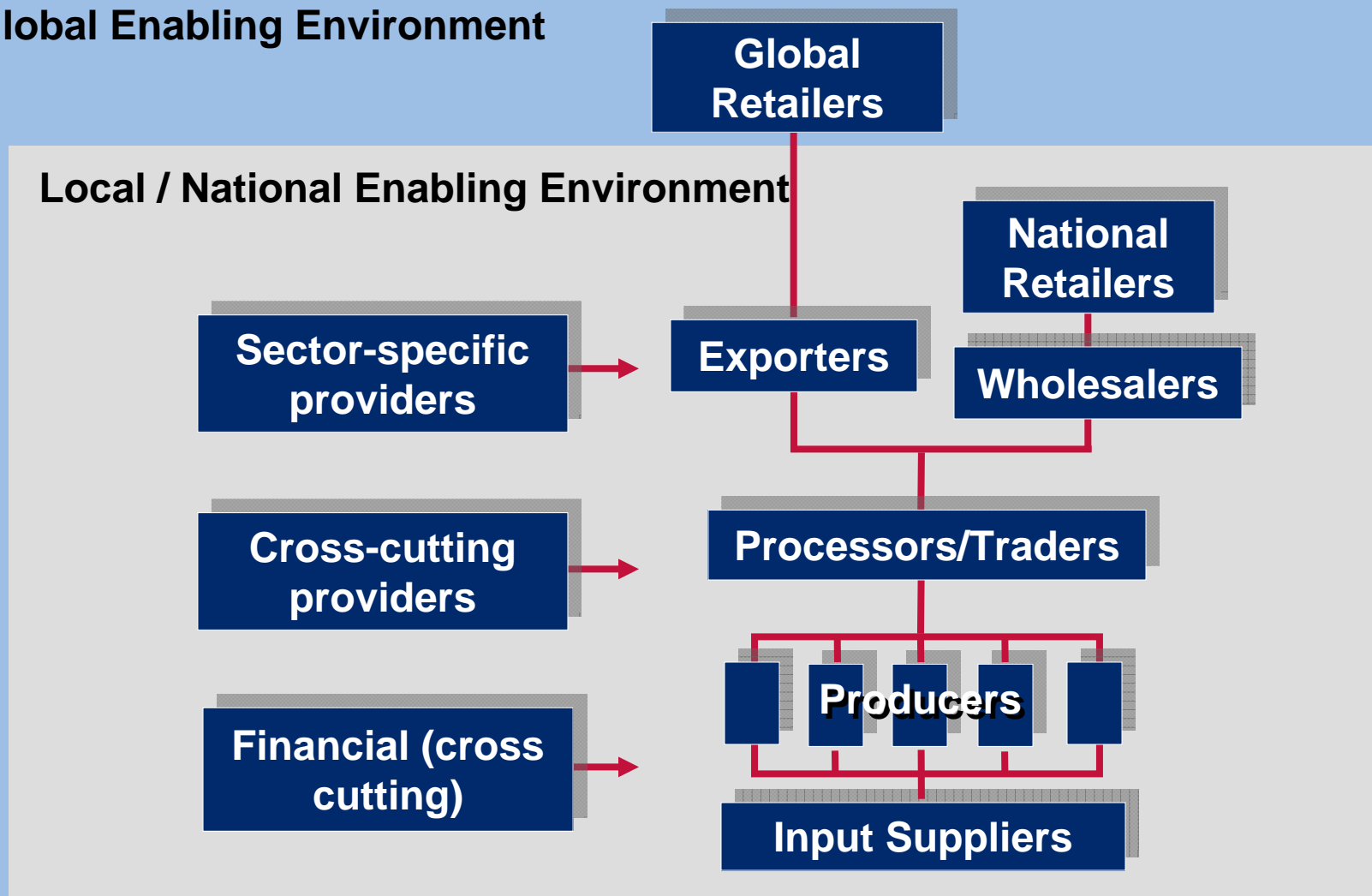
Cross-cutting providers

Processors/Traders

Financial (cross cutting)

Producers

Input Suppliers



TRENDS AFFECTING GLOBAL VALUE CHAINS

– Liberalization of tariff and non-tariff barriers

- Bilateral free trade agreements

– Consolidation of national and global retailers

- Wal-Mart
- Increased concentration into international supermarkets

– Consumer concerns and standards

- Labor practices, SPS, EUREPGAP

– Closer relationship between buyers and suppliers

- Traceability
- Organic
- Labor practices

TRENDS AFFECTING GLOBAL VALUE CHAINS

Globalization changes competitive environment

Globalization → Shifts the Competitiveness Strategy



Firms within one country are not competing against each other, but industries are competing

Even in local markets – the effect of imports

TRADE CHALLENGE

To expand the benefits of south-north trade ...

*Improve the competitiveness of value chains
vis-a-vis global markets?*

*... and assist poor suppliers in upgrading to be able to
compete in global and globalized markets?*

KEY ISSUES IN VC COMPETITIVENESS & SUPPLIER UPGRADING

- End market and end-market analysis
- Competitiveness strategy vs deal making
- Value chain governance
- Upgrading
- Benefit distribution

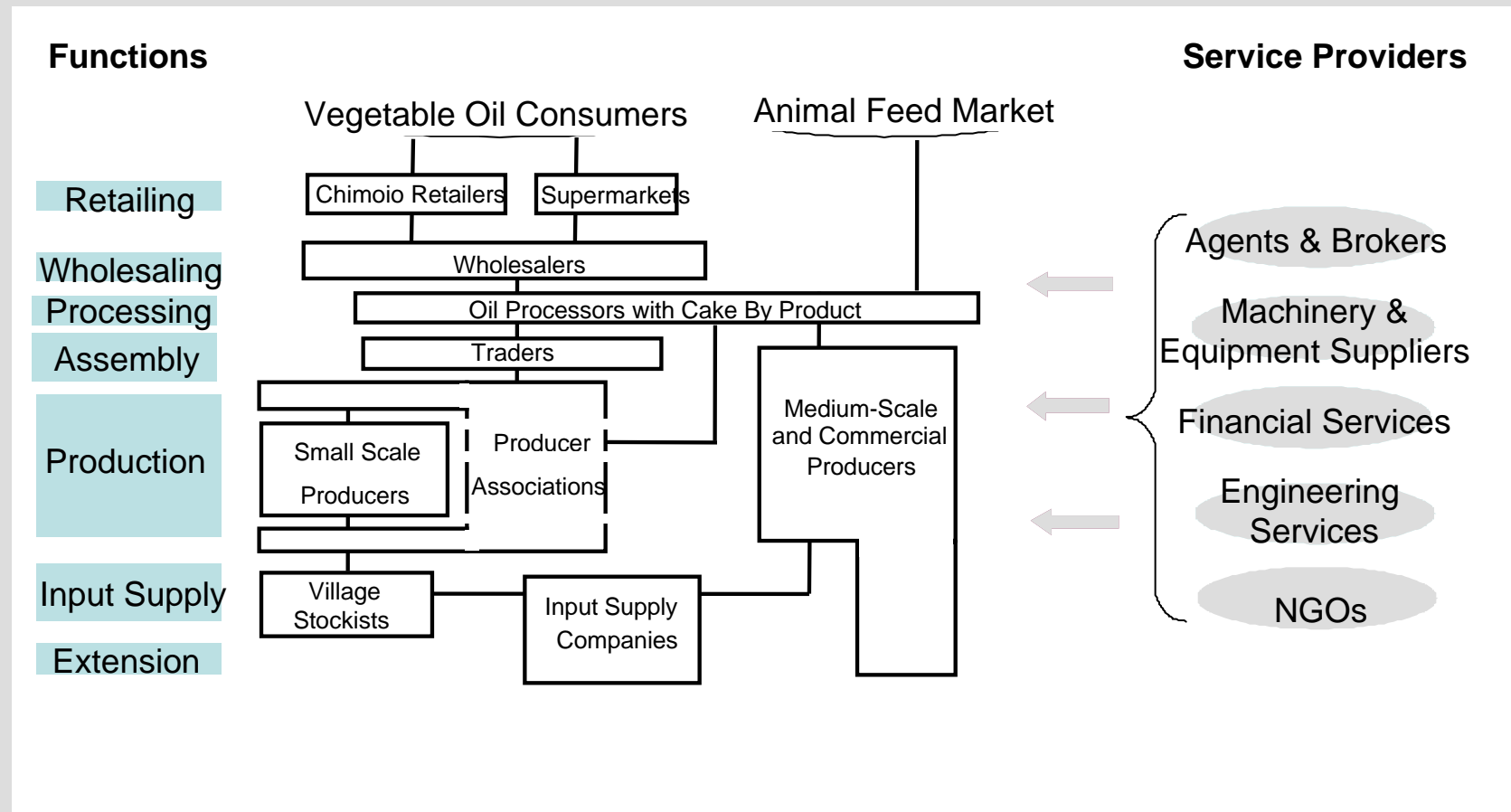
END-MARKET ANALYSIS

- *What is end market analysis?*
- *Why is it important?*
- *Why don't we do it more often?*

END-MARKET ANALYSIS: MARKET SEGMENTATION

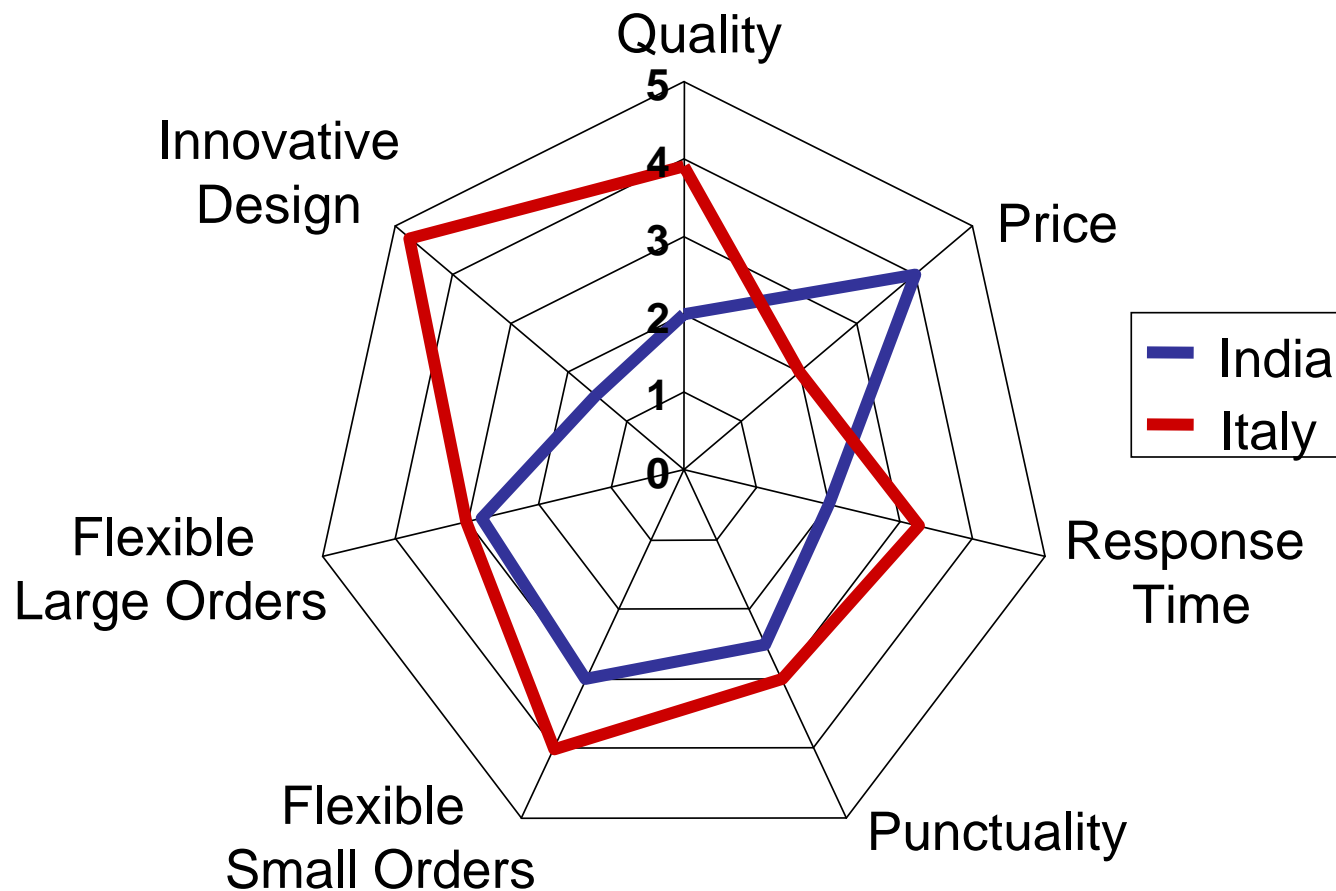
Which market segment(s)?

Mozambique Oilseeds Industry: Basic Value Chain Map



END-MARKET ANALYSIS: **BENCHMARKING**

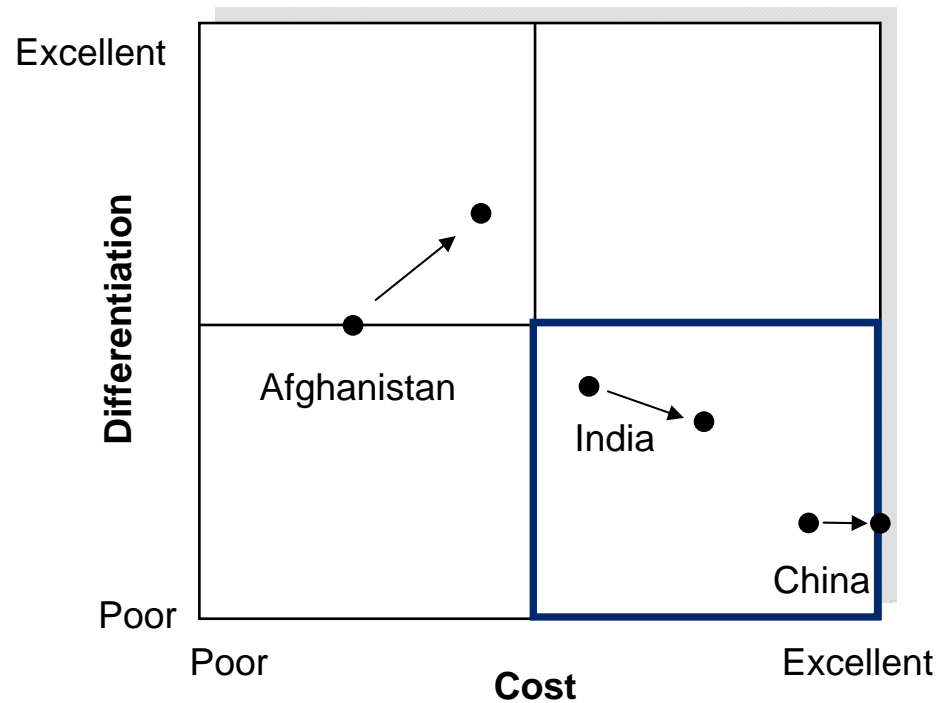
What do buyers want?



POSITIONING

MARKET POSITIONING: Where can Afghanistan compete?

Intense competition in the low-cost, low differentiation quadrant makes it unattractive



END-MARKET ANALYSIS

Trade driven by end markets

- *What is end market analysis?*
- *Why is it important?*
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A COMPETITIVENESS STRATEGY vs DEAL MAKING

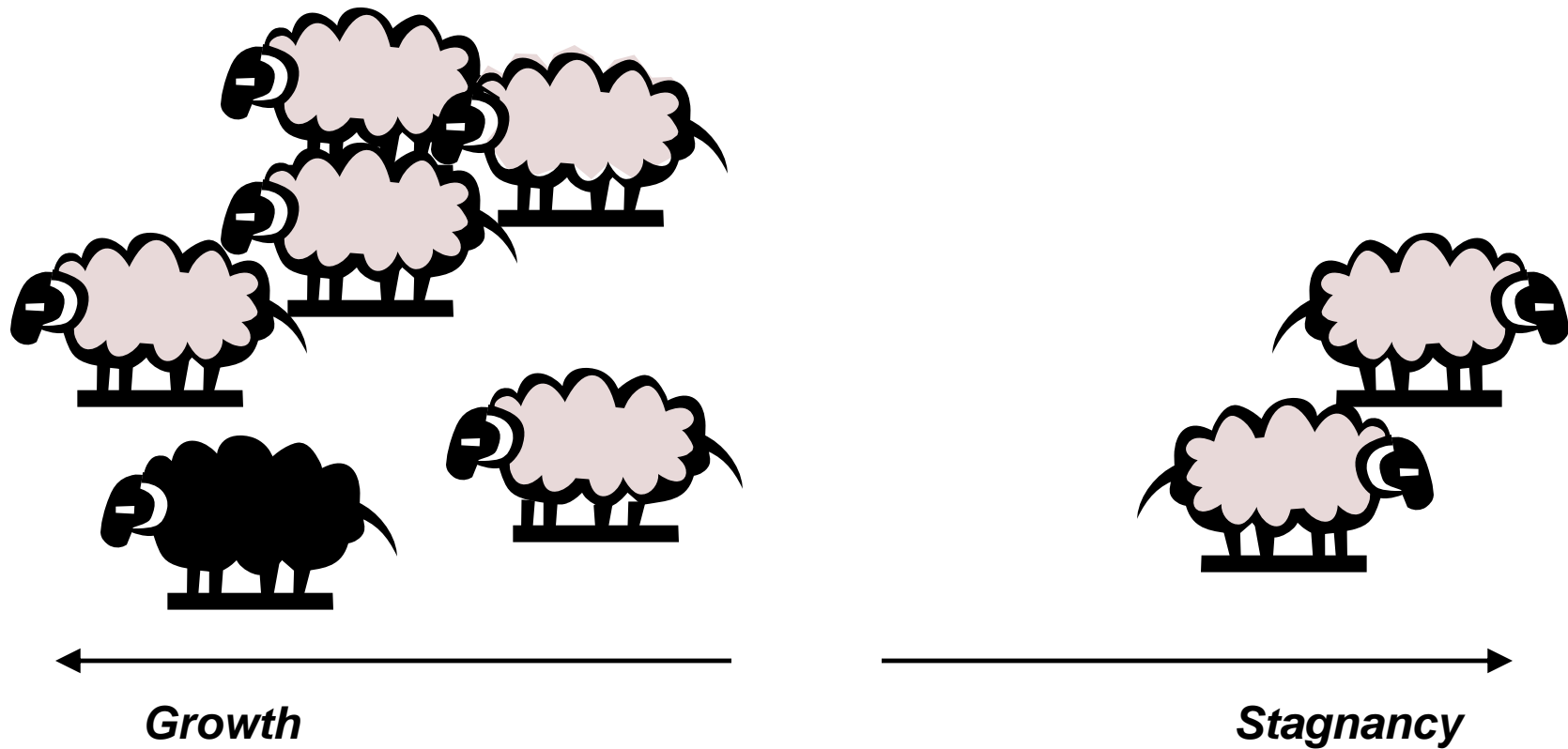
IS a strategy ...

- for moving an industry from stagnancy to growth
- can include multiple markets
- can have short, medium and long-term time frame and involve small, riskable steps

is NOT JUST a strategy for helping individual *firms make a deal..*

- *find a new buyer*
- *become more profitable*
- *access bank financing*

WHY A COMPETITIVENESS STRATEGY?



*Why is collaboration important?
What are “systemic constraints”?*

VALUE CHAIN GOVERNANCE

What is it?

Value Chain Governance as a development tool:

- To understand how relationships are structured
- To create a VISION for the future
- To drive upgrading

VALUE CHAIN GOVERNANCE: Structure of relationships

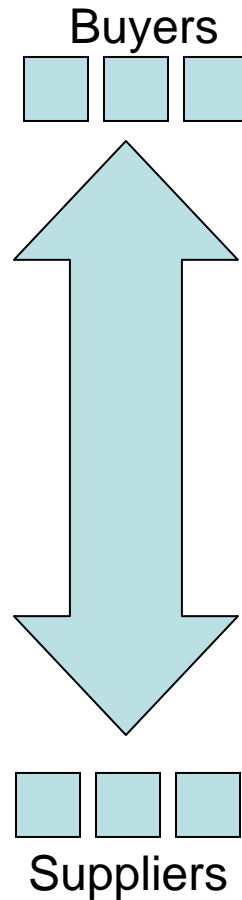
Market

(Tomatoes)



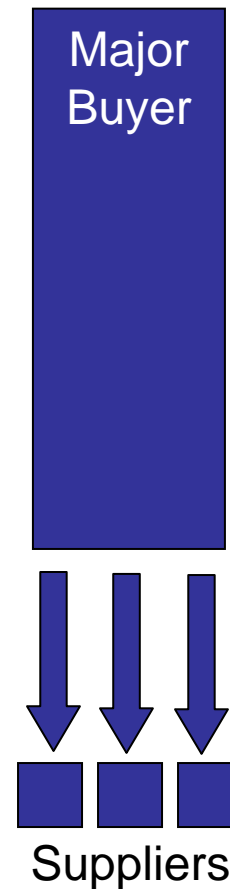
Balanced

(Organic Coffee)



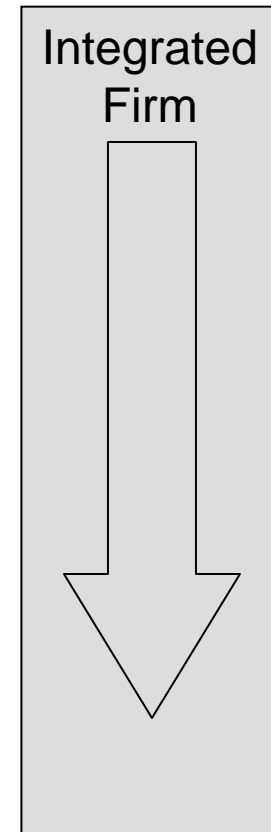
Directed

(Export Crafts)



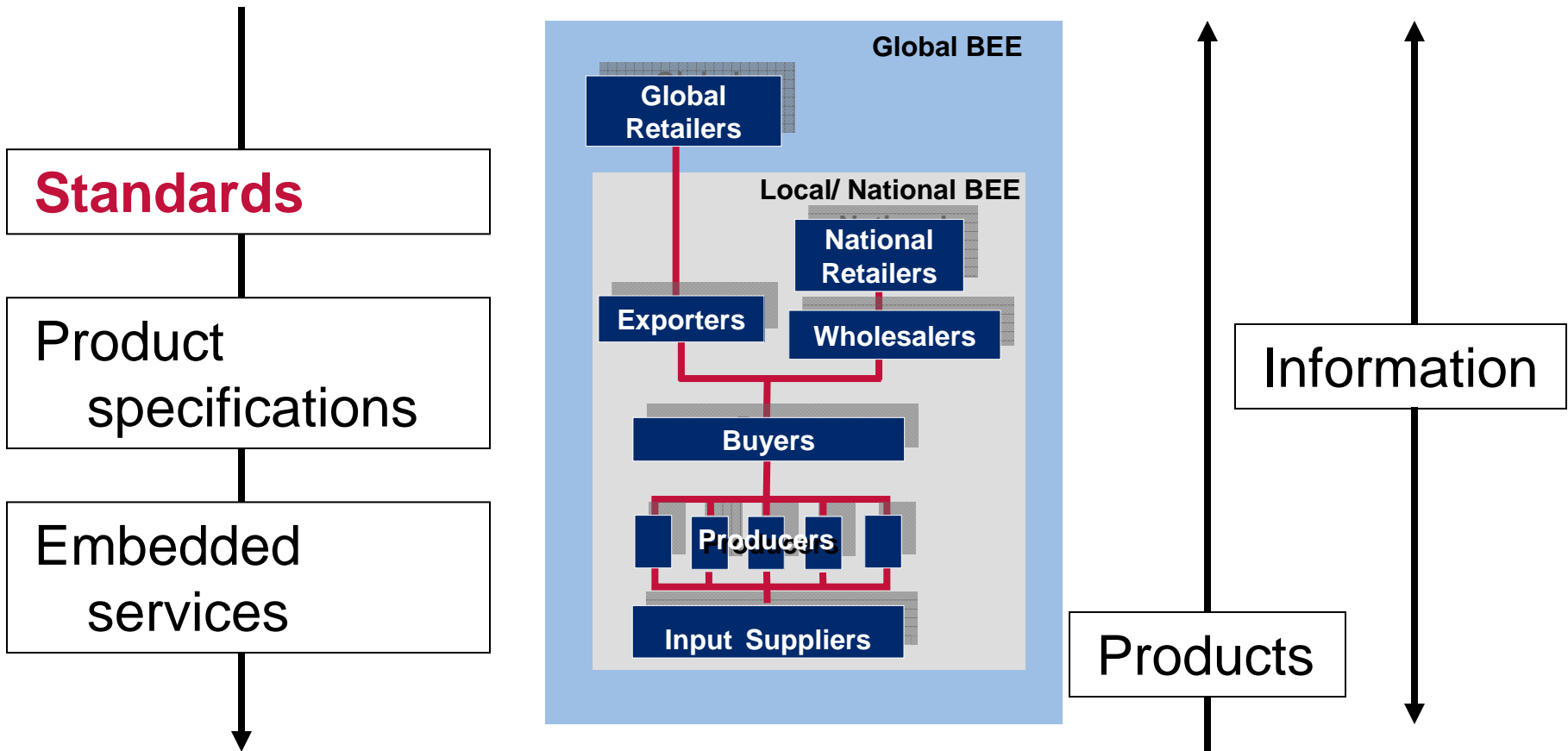
Hierarchy

(Cut Flowers)



VC GOVERNANCE & UPGRADING

Changing the relationship between buyers & suppliers



CATALYST FIRMS THAT DRIVE UPGRADING



- Catalyst or lead firms may be willing to invest in upgrading
- Lead firms may offer suppliers valuable access to market information
- Lead firms may be willing to provide embedded services (i.e. finance, inputs)



- Suppliers lose control and independence in production, post-harvest, etc.
- Possibility of getting trapped in captive markets
- Reduced benefits over time – prices driven down by powerful buyers

BENEFIT DISTRIBUTION AND TRADE

The ability of a value chain to supply its buyers with a product or service that meets all the buyer's requirements depends upon the strength of the chain to deliver:

- Information
- Skills
- Resources
- Benefits

to all participants in the chain

TAKEAWAY LESSONS

- Knowing end markets is the “sine qua non” to promoting trade
- Knowing your competitors and establishing a strategy for creating competitive advantage is another sine qua non
- Chain upgrading is essential to achieve and remain competitive
- Value chain governance can be a tool for upgrading the chain to meet buyers’ demands
- Supporting markets, incentives and an evaluation of risk are key to upgrading
- Fair benefit distribution – without it, side-selling and other behaviors detrimental to competitiveness



YOUR QUESTIONS?