FERDI-AfD workshop on Value Chains and Inclusive Development

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Some concluding comments

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A lot of material was covered in the workshop. It is consequently impossible to summarize all that was said, so this is a personal selection of some key issues.

1. Value chain development (VCD) is a demand-driven approach. This is really a fundamental aspect of the approach. See Alain de Janvry's introduction.

2. Development organizations are increasingly moving in the direction of supporting value chain development and inclusiveness as a growth and poverty reducing strategy.

    a. The World Bank has probably used this earlier and more than any other development bank
    b. See also Marie-Hélène Collion's discussion of the 13 years of success of the model of "productive alliances" in Latin America, now tried in SSA

3. Don't forget staple foods value chains and their role on domestic markets (Frédéric Lançon, CIRAD). In staple foods, private value chains (VC) have difficulties emerging (or certainly not as easily as in high value markets). Hence, "value matters" for VCD.

4. Role of the state. The state has an important role to play in making these private value chains work, in particular:
    a. Essential regulations
    b. Infrastructure investments (both for encouraging private investments and for inclusion of smallholders)

5. Structure: Institutional organization (various forms of contracting and vertical coordination) of the VC is endogenous to several key factors.
    a. This implies that there are many possible variations (and also empirically observed).
    b. This variation makes it difficult to draw general conclusions.
    c. Variation helps for comparative analyses.

6. This also matters when thinking about VCD programs: it implies that there is variation and different institutional models possible when thinking about how cooperatives, NGOs, development organisations, governments can help kick-starting the emergence of value chains and steering/guaranteeing/inclusion of smallholders and the poor.

7. Non-traditional financing models and technology transfer models are a core part of VCD.
    a. For example:
        i. Value chain financing
        ii. Arrangements between input suppliers, buyers and farmers
        iii. Producer alliances
        iv. Triangular structures
        v. Risk-sharing models
    b. These can be substitutes or complements to more traditional models (such as micro-finance programs).
    c. Many are new models for development programs, so require a change of thinking about these issues.

8. There is much to learn about the effectiveness of these VCDs. Impact studies can be much improved (if implemented at all).

9. Competition policy is potentially very important since VCs can include concentrated vertical elements (processing, trading, retailing). However the vertical coordination which is taking place in many value chains makes the relationship between concentration and market power more complex (see e.g. the work of Richard Sexton et al.; also my work with Anneleen Vandeplas).

10. Quality certification is important
    a. But so is who does the certification: 3rd party certification can enhance reliability and prevent rent extraction through the certification process. (see e.g. the presentation by Gaëlle Balineau on cotton in Mali).
    b. Is it possible to apply certification at the "right level" to provide the right incentives for producers etc. (e.g. the presentation by Tanguy Bernard on wheat flour content certification in Ethiopia)

11. What is the role of farm associations/cooperatives ? They can potentially play an important role:
    a. In reducing transaction costs (by selecting products in different qualities, etc.)
    b. In training farmers
    c. In bargaining with buyers

    However, it does require "learning" by cooperatives themselves about how to operate in a "high value" environment (importance of quality requirements etc.) – VCD programs can play an obvious role here.

12. Dispute settlement mechanisms: important to have instruments/institutions for low-cost and "fair" settlement of disputes between agents in the value chain (e.g. related to quality, timely delivery, payment agreements, etc.).

    This not only matters for distributional aspects (equity) in VC exchanges, but also for credibility of contract arrangements, and thus for efficiency.

There was a discussion in the panel on the role of interprofessional organizations. This is an example of such institutions.

13. Bargaining power and distribution of value in the VC. Smallholder inclusion is only one step and does not help the poor much if smallholders do not get a share of the surplus that is created.
    a. Rent distribution will depend on several variables, including excess demand for quality products in environments of market imperfections: this can give “small producers” extra bargaining power versus “large buyers”.
    b. This has some paradoxical effects that, with reduction of market imperfections, the bargaining power of farms may decrease (see today’s discussions on Unfair Trading Practices in the EU – a demand for “fair trade” in the EU).

14. The last panel raised interesting issues about the need for researchers to talk to business agents (I would say to agents at various places in the value chain). This, of course, is true in general, but it may be extra relevant here since it is more difficult to generalize results and there is much experimentation going on by VC actors from which one can learn before designing “academic experiments”.

I really enjoyed the workshop.