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Diversification and value addition: approaches to increasing and retaining higher value added

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Diversification and value addition: approaches to increasing and retaining higher value added

Multi-year Expert Meeting on Commodities and Development, tenth session

A presentation to: Multi Year Expert Meeting on Commodities, UNCTAD
By: James Howe, Senior Adviser DEI/SEC
Date: 25th April 2018
ITC Value Added to Trade (VA2T) Programme

“We help craft alliances among value chain actors to improve coordination and build a supportive ecosystem for MSME growth. We bring expertise and global networks in priority sectors for partner countries including agriculture and agro-processing, textiles and clothing, light manufacturing, and services such as business process outsourcing and tourism. At enterprise level, ITC focuses industry knowledge and expertise on helping MSMEs improve products and processes, attract financing, and improve core capabilities in areas such as quality and packaging. Finally, ITC has a special focus on preparing MSMEs to benefit from digital trade.”

-ITC Strategy 2018-2021
De-commoditization: the Value Engine

Increased quality improves reputation, through better Marketing, Branding, Sales and Customer Service.

Increased investment leads to better quality and productivity through an improvement of standards, supply chain and production management.

Increased profits are reinvested in the business through better business planning and financing.

- Creating jobs
- Paying taxes
- Investing
- ... generating sustainable and inclusive growth

Increased reputation brings more value through better Market Connections.

ITC

TRADE IMPACT FOR GOOD
SMEs: What we know

- SMEs account for 70% of employment and over half of GDP and have a huge impact on growth and inclusiveness…

- …and yet have lower productivity and pay lower wages than larger firms.

- Potential Gains to improving SME competitiveness are enormous, but barriers are high and complex…

- …and SMEs are particularly sensitive to the eco-system and services around them.

- SMEs active internationally are particularly important: they bring innovation, market relationships and higher productivity.
Holistic Approach
The SME Competitiveness Grid supports measurement at the country / sector level

- Builds platforms (Alliance for Action), industry and cluster associations

3 Pillars of Competitiveness

<table>
<thead>
<tr>
<th>SME Competitiveness Grid</th>
<th>Pillars</th>
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<tbody>
<tr>
<td></td>
<td>Capacity to compete</td>
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<td>Capacity to connect</td>
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<td>Capacity to change</td>
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<table>
<thead>
<tr>
<th>Layers</th>
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<tr>
<td>‘Firm Level’ Capabilities</td>
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<tr>
<td>Immediate business environment</td>
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<td>National environment</td>
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VA2T – Solutions
Integrated solutions putting the framework into practice at three main levels

Enterprise level:
- Help formulate competitive strategies and access key resources
- Reinforce quality and efficiency of supply and production
- Enable sales and marketing expand market linkages
- Focus on e-commerce and digital solutions

Sector level – Eco-system level:
- Build platforms (Alliance for Action), industry and cluster associations
- Improve immediate business environment
- Design development strategies at sector level
- Implement operational and managerial sustainability practices

International market level:
- Foster strategic partnerships with buyers and lead enterprises
- Combine development impact with environmental sustainability and long-term value generation
Value Added to Trade (VA2T) – Vision

VA2T builds transformative change over time with different layers of value

<table>
<thead>
<tr>
<th>Type of Value</th>
<th>Upgrading Trajectory</th>
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<tbody>
<tr>
<td>Value acquisition</td>
<td>Improving efficiency (and reducing wastage).</td>
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<tr>
<td>Value retention</td>
<td>Taking on more tasks within each stage of the value chain</td>
</tr>
<tr>
<td>Value addition</td>
<td>Reinforcing and adding value at each stage of the value chain</td>
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<td>Value creation</td>
<td>Entering new value chains within the sector or related sectors</td>
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<td>Value distribution</td>
<td>Increasing developmental impact</td>
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Examples of VA2T Interventions

- Improving Senegalese mango exports through integrated sector development: exports doubled in 2015.

- Increasing sales of Bangladeshi SMEs to Europe in the IT sector: SMEs sold 20% more to Europe.

- Increasing Zimbabwe exports by building new information access platforms, upgrading the national standards and quality testing infrastructure and promoting public-private dialogue.

- Improving sustainable productivity and income of small-scale coconut producers in nine Caribbean countries through integrated sector development.

- Increasing exports in Colombia through quality certification: certified SMEs increased exports by 35%.
Expanding Alliances for Action: Framework

UNDERSTAND
Markets & food systems
- Identify Market-Product opportunities
- Assess SMEs and MSME competitiveness
- Define and assess institutional support network
- Network analysis (connectivity & innovation)
- Assess global industry trends and local socioeconomic situation
- Multi stakeholder process

CONVENE
Responsible public-private VC alliances
- Establish Alliances between firms
- Select intervention areas
- Agree Value Chain operator roles
- Define Alliance support plan
- Commit participants’ contribution & investments
- Develop Business and investments plans for each alliance and product/market option

TRANSFORM
Building competitiveness to put Alliances into Action
- Peer to peer learning and innovation
- Market linkages and technical support
- Capacity building

IMPACT
Communicating & learning for decision making
- Evidence based participatory M&E
- Select tracked VC indicators
- Track development-related objectives

INVEST
Investing in the Alliances
- Financial literacy training & leverage
- Blend sources of finance & investment

PRINCIPLES

Better participation in global and regional value chains
Systemic, inclusive and sustainable
Market-led producer oriented
Value addition and risk diversification
Scalability, additionality & impact

A4A industry & development advisory groups and multi-stakeholder platforms
Global – National - Local
Example from Global Textiles and Clothing Programme (GTEX) Capturing the value in apparel GVCs

Only focussing on production and productivity, including social and environmental sustainability, will miss the opportunity for enterprises to capture additional value.

- R&D
- Design
- Sourcing & Logistics:
- Production
- Logistics & Distribution
- Post-sales & Retail Services
- Marketing & Branding

Scope for expanding in national and regional markets

Services
Production incl. social & environmental sustainability

Added Economic Value
Immediate scope for value addition
Reduce costs increase productivity

Services
Quality-related Challenges for many SMEs…

- Being and remaining competitive in terms of overall product quality, quantity, service and overall costs
- Meeting additional specific buyer or customer requirements
- Complying with standards required by buyers
- Meeting legal market access requirements
  (Technical regulations and sanitary and phytosanitary requirements)
Example: Improving production efficiency and quality Zimbabwe Iron and Steel Processing factories

1. Mono Pumps (Pvt) Ltd manufacturing mono pumps

2. JVS Projects manufacturing electrical switchgear panels

3. Copperwares (Pvt) Ltd manufacturing copper gifts and trophies

4. Jacob Bethel manufacturing integrated drill steel

5. Stainless Steel Products job-based stainless steel products

6. Almin Metal Industries Ltd vertically integrated aluminum architectural products

- Improve cash flow and cost savings
  - Optimise imported material purchase batch size, order frequency and group purchase

- Improve productivity & efficiency
  - Identify and alleviate bottleneck processes e.g. cooling
  - 5S workplace organisation (Sort, Straighten, Shine, Standardise and Sustain)
  - Cost-benefit analysis of backup generator for critical path equipment to reduce manufacturing downtime

- Improve delivery
  - Reorganise workstations to improve material flow and reduce cycle time, transportation and motion

- Improve quality
  - Templates for cutting to error-proof and reduce cutting time
  - Include unit counting at workstation and in quality check
Senegal mangoes

**CRITERIA OF THE LABEL**

**Product quality**

**Process quality**

**Environmental considerations**

**Social considerations**

**Who can be labelized?**
- Producers of fresh mangoes
- Exporters of fresh mangoes
- Mango processors
- Exporters of mango-derived products
Chad Gum Arabic

Developed a growth marketing strategy and a set of communication tools

<table>
<thead>
<tr>
<th>100-150kg jute bags of gum arabic</th>
<th>Solution/Production</th>
<th>200-500g small canisters</th>
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<tbody>
<tr>
<td>1,100 € / tonne</td>
<td>Price</td>
<td>32'000 € / tonne</td>
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Smaller quantities, better understanding of the customers, retaining more value at producer/exporter level
Inverting a Global Value Chain: the example of Mama Louise Coffee from Rwanda

« This is a great opportunity for us to meet new clients and see how we can expand our business globally through e-commerce. »

Anna Kim
LetSequoia CEO
THANK YOU

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