

GLOBAL COMMODITIES FORUM

7-8 April 2014

**Governance and Upgrading in Value
Chains: Opportunities and Challenges**

by

Mr. Stefano Ponte

Professor of International Political Economy
Department of Business and Politics
Copenhagen Business School

The views expressed are those of the author and do not necessarily reflect the views of
UNCTAD.

Governance and Upgrading in Value Chains: Opportunities and Challenges

Stefano Ponte

Professor of International Political Economy

Department of Business and Politics

Copenhagen Business School

Presented at GCF, 7 April 2014

Outline

- Why value chains
- Governance of value chains
- Value chain upgrading
- Sustainability standards and transparency
- Value chain interventions
- Conclusion

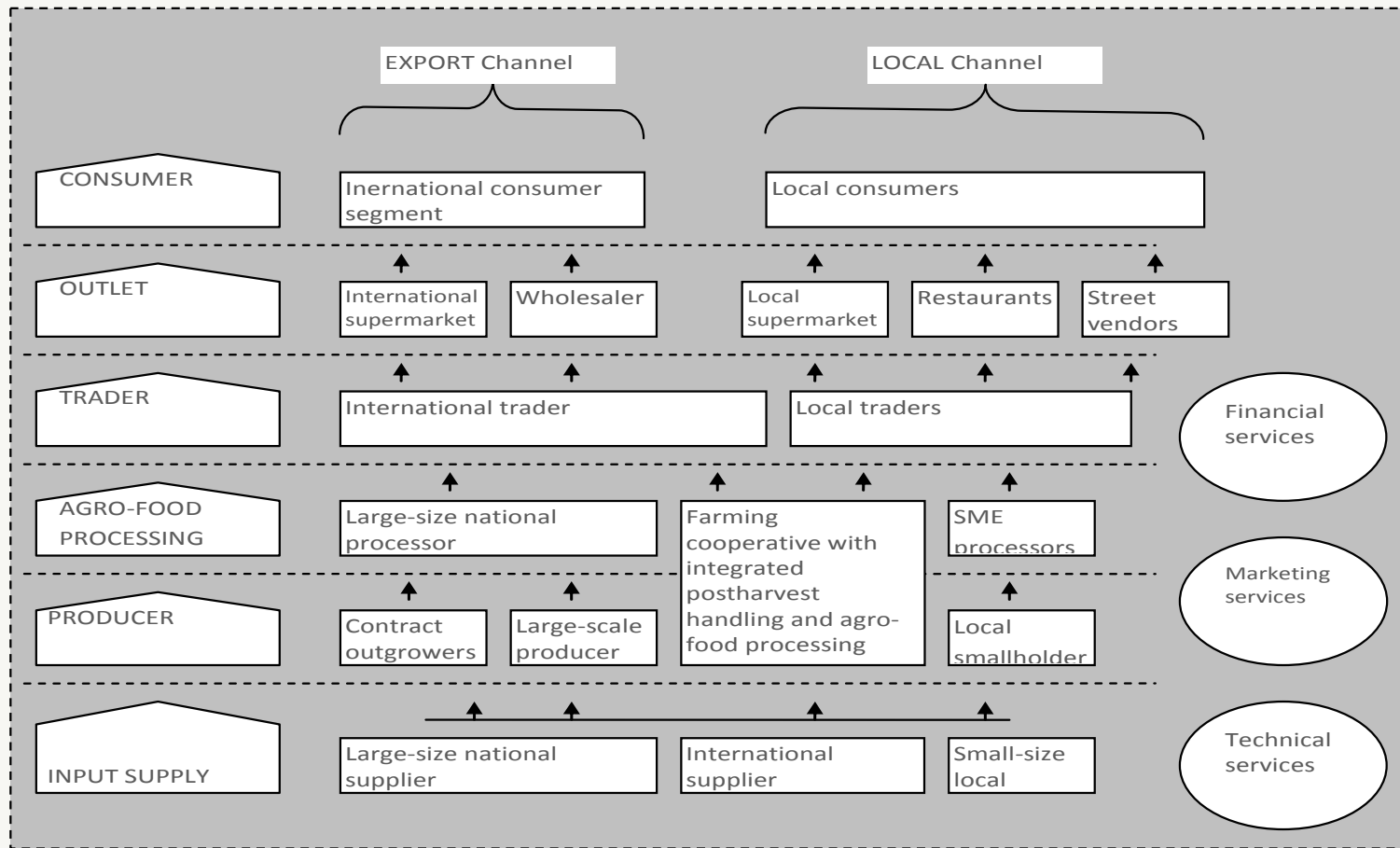
Why value chains?

- Last 20 years
 - From trade in products to trade in tasks/value added
 - From vertically-integrated TNCs to governing of various layers of suppliers
 - End of commodity agreements as ways of co-governing trade + market liberalization
- More recently, increased focus on
 - 'Learning from buyers'
 - Industrial policy and building (specific) productive capacity

Value chains

- Full range of activities that are required to bring a product or service from conception, through different phases of production and processing, delivery to final consumers and final disposal/recycling
- Can be global, regional, local

Figure 3. Generic Value Chain Map



Value chain governance

- Actively governed, rarely true 'markets'
 - Lead firms govern value chains through specific demands (buyer power), rarely through direct ownership
 - Eg retailers (Wal-Mart, Tesco, etc.)
 - Branded processors (Nestle', Unilever)
 - International traders (Cargill, ADM)
- Driving mechanisms
 - Buyer-driven, producer-driven value chains
- Different linkages along the value chain
 - Market, Modular, Relational, Captive, Hierarchy



TESCO

Cargill



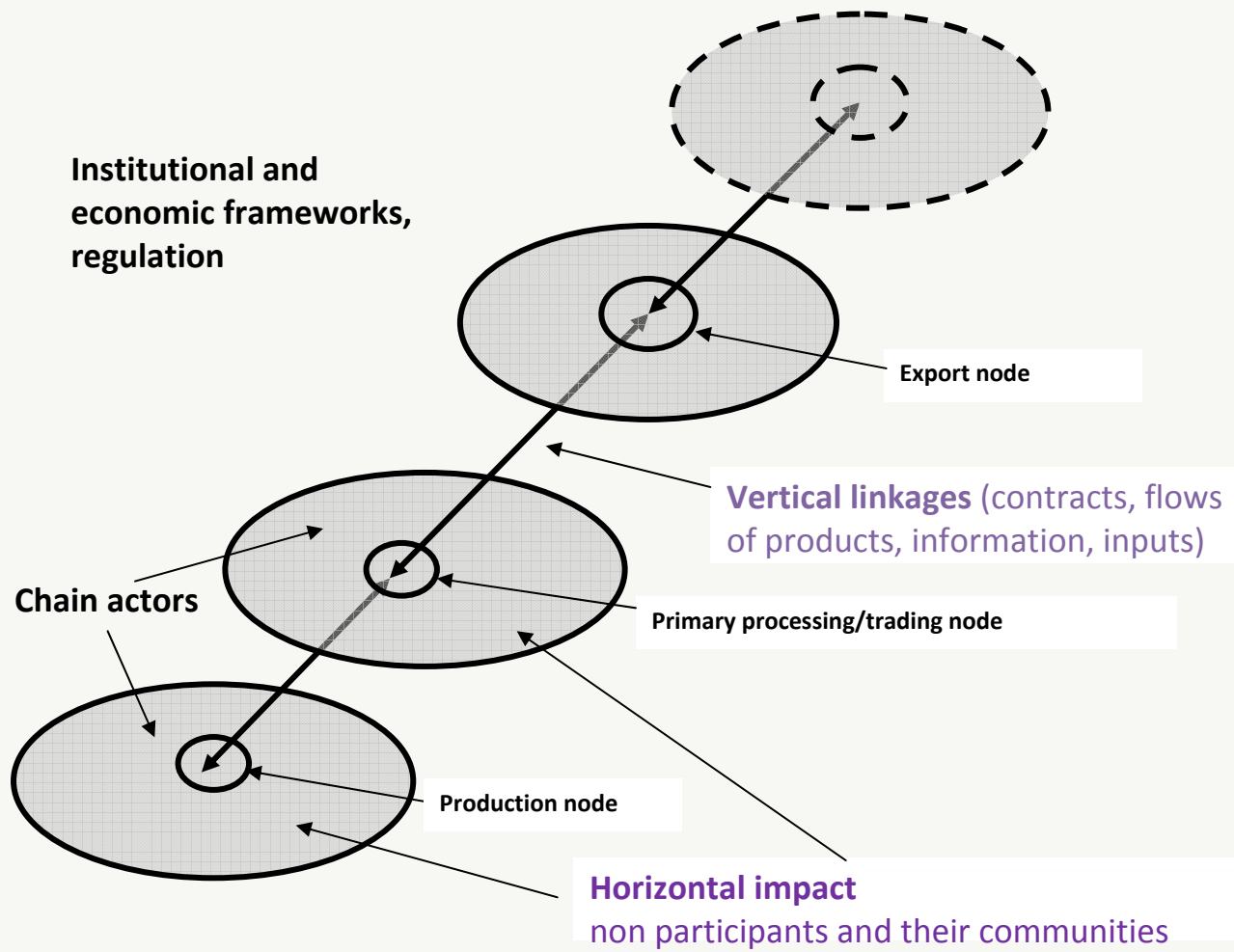
Carrefour



Walmart 

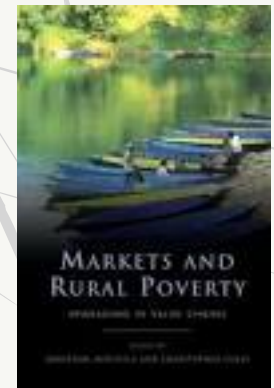
Value chain participation

- Does it work for actors in CDDCs?
- Important to understand:
 - how GVC inclusion and exclusion take place
 - under what conditions and rewards
 - opportunities and threats, risk and vulnerability
- Depends on:
 - What value chain? Which lead firms?
 - What forms of governance and linkages?
 - What standards are required?
 - Food safety, quantity, quality, volume, logistics, time-to-market
 - Sustainability certifications



Upgrading in value chains

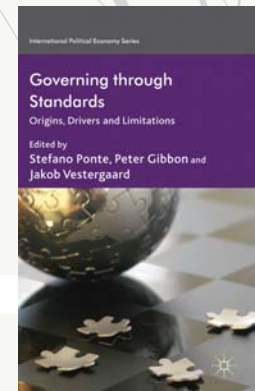
- Different possibilities:
 - make better products
 - improve processes
 - add functions
 - receive higher prices for the same product (FT, GIs)
 - match standards, logistics, volume, timing demands
 - provide wider portfolio of product qualities





Sustainability standards and transparency

- Becoming increasingly demanded by 'buyers'
- Adding transparency on conditions of production
- BUT, also placing extra demands on producers and small enterprises in developing countries
 - can be costly
 - (often paid by donors, NGOs, exporters)
- Often not paying a premium at the farm gate
 - Offer entry point to a market or buyer



Value chain interventions

- creating new value chains;
- increasing the capabilities of target groups to improve the terms of value chain participation
 - also through collective action
 - leverage points
- minimizing the possible negative impacts of value chain operations on non-participants and/or adjacent communities

Value chain interventions (cont)

- Strengthening vertical links
 - e.g. between farmers and agro-food processors or exporters
 - contract farming
 - improved information on product forms, prices, quality
- Addressing bottlenecks in the value chain
 - inputs, logistics, cold chain, technology, infrastructure
- Develop productive capacity
- Support in meeting standards & certification

Conclusion

- Opportunities and challenges in:
 - value chain participation
 - upgrading trajectories
- Answer is not always in ‘trading up’
 - volume still important, wider portfolios (including lower quality), emerging markets
- Regulation and donor/public sector support
 - important but needs to be devised in view of actual functioning and governance of value chains

