



USAID
FROM THE AMERICAN PEOPLE

GLOBAL FOOD SECURITY RESPONSE: WEST AFRICA VALUE CHAIN ANALYSIS PROTOCOL

microREPORT #153

FEBRUARY 2009

This publication was produced for review by the United States Agency for International Development. It was prepared by ACDI/VOCA and DAI, Inc. under the Accelerated Microenterprise Advancement Project.

GLOBAL FOOD SECURITY RESPONSE:

WEST AFRICA VALUE CHAIN ANALYSIS PROTOCOL

microREPORT #153

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

CONTENTS

- I. INTRODUCTION 1
 - A. OVERVIEW 1
 - B. CHALLENGES 2
 - C. QUESTIONS TO BE ANSWERED BY VALUE CHAIN STUDIES 2
 - D. OBJECTIVES..... 3

- II. APPROACH FOR VALUE CHAIN STUDIES 4
 - A. VARIOUS APPROACHES TO VALUE CHAIN ANALYSIS 4
 - B. THE VALUE CHAIN APPROACH: AN INTEGRATED MARKET SYSTEMS APPROACH 4
 - C. DEFINING SCOPE: THE VALUE CHAIN ANALYTICAL FRAMEWORK 5
 - D. PRINCIPLES FOR CONDUCTING A VALUE CHAIN ANALYSIS 6

- III. METHODOLOGY AND DATA NEEDED FOR VALUE CHAIN ANALYSIS..... 8
 - A. OVERVIEW OF METHODOLOGY 8
 - B. COMPLEMENTARY STUDIES (EXISTING OR TO BE CONDUCTED) 9
 - C. STEPS IN THE DATA COLLECTION PROCESS..... 10
 - D. DEVELOP SHORT-, MEDIUM- AND LONG-TERM STRATEGIC PLANS FOR CREATING COMPETITIVE ADVANTAGE IN SELECTED STAPLE FOOD VALUE CHAINS THAT INCLUDE LARGE NUMBERS OF SMALLHOLDERS AND WOMEN 13
 - E. IN LIGHT OF THE INDUSTRY STRATEGY, DEFINE ROLES FOR USAID, THE PRIVATE SECTOR, THE GOVERNMENT AND CAADP 14
 - F. RECOMMEND INVESTMENTS FOR THE SHORT-, MEDIUM- AND LONG-TERM FOR USAID AND FOR THE VARIOUS MISSIONS 14

I. INTRODUCTION

A. OVERVIEW

As part of the USAID Global Food Security Response (GFSR), the Africa Bureau with EGAT assistance plans to conduct a set of multi-layered comprehensive studies aimed at improving food security¹ and raising rural incomes in West Africa. The studies seek to identify the most effective interventions to promote these goals that can be undertaken by USAID, in collaboration with other donors, host governments and private-sector actors.

The studies will include 7–9 food staple value chains assessments and will cover several West African countries.² The research will be multi-level and multi-disciplinary. Several types of data will be collected and analyzed spatially to understand the interactions among various influences on food security and rural incomes. One layer of analysis will review climate, land, population, road conditions and other spatial aspects of food production to determine where the greatest potentials for increasing production and incomes are located. A second layer will detail trade flows along transport corridors and from areas of high production potential to areas of high consumption. A third will examine the constraints to trade along these corridors, both within countries and across national borders. Other layers will include the business environment (analyzed using the BizCLIR methodology), finance, information and communication, the agricultural input industry and finally value chain analyses that examine end markets, chain constraints, including incentives and disincentives for investing in upgrading, and other dynamic factors.

To make this information as useful and meaningful as possible, USAID intends to use GIS to visualize the layers of information and model the effects of different interventions. Since these various regional and country-level studies will be conducted and commissioned by a number of different entities, common research protocols are needed to maximize the potential for analysis across the studies and to facilitate their mapping on a single GIS platform. This document lays out the research protocol for the 7-9 staple crop value chain analyses to be conducted across the West Africa region.

This protocol will build on and incorporate various approaches to sector development and will include USAID’s value chain approach. Value chain analysis is different from but complementary to the analysis conducted by agricultural economists who aim to identify where interventions can have the greatest benefit or pay off. Such analysis focuses on the returns to change, not the obstacles to change, i.e., the benefits of alleviating constraints but not the feasibility of addressing constraints or how to address them. USAID/EGAT’s value chain approach, with its focus on end markets, is a good complement to analysis (of the type conducted by IFPRI) of the factors that determine the location of potentially high-productivity production areas.

¹ USAID defines food security to be “when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life.” (Policy Determination 19. April 13, 1992) For producers of staple crops, food security can be improved either by increasing the quantity of the staple crops that they produce and consume themselves or by increasing the income that they earn by selling goods and services (including, but not limited to, staple crops). For true food security to be obtained, this improvement must be sustained over a number of years, not just in the short run.

² Nigeria, Liberia, Mali, Ghana, Senegal, and perhaps others.

USAID/EGAT’s approach to value chain analysis aims to understand market systems and what drives behavior in these systems in terms of opportunities and obstacles. It covers both *tangible* obstacles—such as lack of access to markets, inputs, post-harvest technology and/or finance—and *intangible* obstacles in the form of a disabling business environment, disincentives for cooperation or constructive competition, lack of trust and/or perceived risks to investing. It starts with the identification of opportunities and constraints to those opportunities, and goes beyond to formulate an industry strategy and action plan.

B. CHALLENGES

Within many staple food value chains, relationships between actors at different levels of the value chain are weak, disconnected or even adversarial. Information flows are often asymmetrical. In addition, there is a widespread lack of objective standards and grades. Consequently, transaction costs and risks and costs are high, and lack of transparency means that value chain actors enter into negotiations with mistrust. As a result, commodity crops are treated more like higher-value crops that require specific quality standards and inspection for each transaction. Businesses operating in such environments therefore tend to default to a strategy based on maximizing margins per unit and short-term profit over volume.

By way of contrast, commodity markets in developed countries have institutionalized many of the norms of behavior needed to lower per-transaction negotiation costs. Grades and standards, organized markets with guarantees, and support services like warehouses all make arms-length deals easy. In turn, low-cost, low-risk transactions help stimulate increased production. The transition to a more efficient volumes-based structure requires substantial behavioral change and organizational infrastructure. Without this, an interim step might entail fostering the ability of lead firms to control the supply chain by creating assurances of quality and volume.

Other challenges in the development of staple food commodity crops include the interconnectedness of the agricultural value chains and support markets, in particular the inputs industry, which is important for driving staple food production and for reducing post-harvest losses. Crop rotation is important to many row crops especially in the absence of a robust inputs industry. The market opportunities for the rotated crops are therefore also significant. In addition, the prevalence of food aid has the potential to influence production and investment decisions.

C. QUESTIONS TO BE ANSWERED BY VALUE CHAIN STUDIES

The goal of the value chain studies is to improve food security and raise rural incomes in various food staple value chains of West Africa. Greater food security will be achieved through a combination of increased food availability—resulting from higher yields, improved post-harvest practices and more efficient marketing—and sustainable increases in rural incomes due to higher rates of value chain growth, improved competitiveness and complementary economic activities.³

³ In order to become more competitive, some industries will seek economies of scale that limit smallholder participation. Further, some producers grow staple crops primarily as a way of lessening the threat of price volatility. The goal of this research is therefore neither to solely promote increased production, nor to maximize rural incomes, but to find a balance between the two.

Key questions that need to be answered in order to attain this goal are as follows:

1. Where are the high-potential areas for production of the selected staple foods that should be the target for interventions to increase food security and rural incomes by raising production, yields, on-farm consumption and the marketed surplus?
2. Where are the key end markets within the region for marketed staple foods? What are the characteristics of demand in these markets, including consumer preferences? What are the competing sources of supply, including food aid? And what, as a result, are the challenges and opportunities in these end markets for West African suppliers?
3. What are the challenges and opportunities for trade in staple foods between areas of high production and areas of consumption, both within countries and across national borders?⁴
4. What challenges do staple food value chains face in taking advantage of end-market opportunities and improving value chain competitiveness?
5. What competitiveness strategies should private-sector stakeholders in selected staple food value chains adopt to raise the incomes of all participants in the value chain and thereby increase productivity and improve competitiveness?
6. What interventions, actions and/or investments by USAID—within the CAADP framework—can have the greatest impact on food security and rural incomes? How can USAID support sustainable increases in value chain competitiveness? How can USAID help protect rural incomes over time in cases where the increased competitiveness of staple food value chains marginalizes smallholder producers?

D. OBJECTIVES

Understanding constraints to improved productivity and competitiveness is critical to the GFSR effort. However, by itself, analysis of constraints—which donor studies have focused on for many years—does not necessarily lead to change and improvement. A key objective of the value chain work is to detail opportunities and constraints to those opportunities, as well as to identify drivers of change, a strategy for increasing industry competitiveness, and action plans appropriate for the private sector, West African governments, CAADP and USAID in support of this strategy.

The objectives of this study are the following:

- Identifying end-market opportunities for selected staple foods
- Analyzing value chain constraints to taking advantage of identified opportunities
- Develop short-, medium- and long-term industry strategies for creating competitive advantage in selected staple food value chains
- Propose roles for USAID and host governments—within the CAADP framework—in support of the industry strategies.
- Recommend investments in the short, medium and long term for USAID to improve the competitiveness of staple food value chains, improve food security, and increase rural incomes in West Africa.

⁴ Constraints in selected staple food value chains to taking advantage of end-market opportunities are especially important because they define likely targets for short- to medium-term interventions.

II. APPROACH FOR VALUE CHAIN STUDIES

A. VARIOUS APPROACHES TO VALUE CHAIN ANALYSIS

The value chain approach is not new. It builds on subsector analysis and was first popularized by Michael Porter, a professor at Harvard Business School, more than 20 years ago. The approach has continued to evolve, however. USAID’s articulation of the value chain approach retains Porter’s focus on the importance of competitiveness strategies and incorporates work on global value chains, governance and industrial upgrading conducted by Gary Gereffi (sociology professor, Duke University), John Humphrey (sociology professor, Institute of Development Studies (IDS), University of Sussex, UK) and Hubert Schmitz (development economist, IDS). It also draws heavily on lessons learned in the field by an array of practitioners over more than five years.

Different schools of thought answer different questions: the World Bank and International Finance Corporation, for example, have conducted many value chain analyses that quantify to a high degree of specificity the percentage of the end-market value added to a product at each step in the chain as well as the time needed for each of these steps. Such quantitative data can be compared against similar data from competing countries to identify potential competitive advantages or, conversely, inefficiencies. Such an approach is helpful in assessing if an industry can be competitive, and if so, how.

USAID’s value chain approach includes quantitative analysis but focuses also on qualitative aspects: inter-firm relationships, incentives and the governance structures of industries. It asks not just *what* happens in a value chain, but *why*. An understanding of why industries and their constituent firms, as well as other public- and private-sector stakeholders, operate as they do, enables the development of strategies to bring about behavior change. In dynamic markets, behavior change, rather than one-time technical “fixes,” lead to sustained competitiveness.

B. THE VALUE CHAIN APPROACH: AN INTEGRATED MARKET SYSTEMS APPROACH

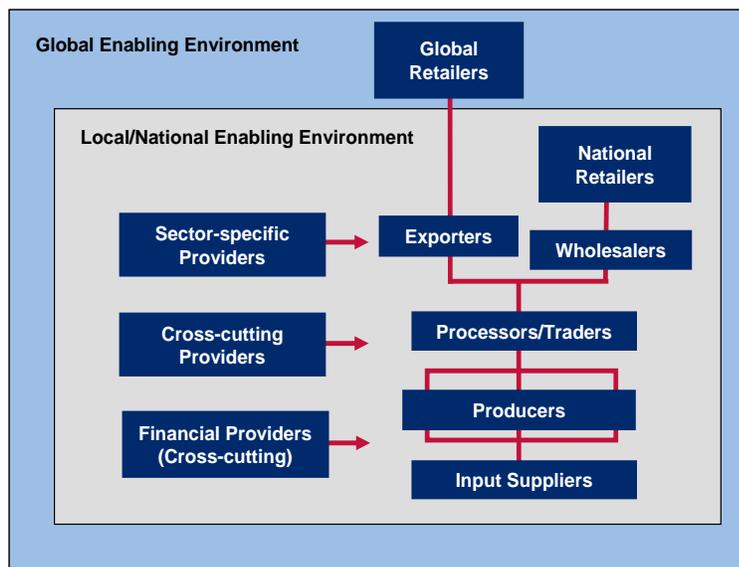
A *value chain* is the set of actors and activities that bring a product (or a service) from its conception to its end use in a particular industry. The value chain can be seen on the right of Figure 1 (next page), running from the bottom to the top, and consisting of input suppliers, producers, processors, traders, wholesalers and exporters, and retailers in various end markets. It is called a “value chain” because at each stage, value is being added to the product or service.

Taking a value chain approach necessitates understanding a *market system* in its totality: the firms⁵ that operate within an industry—from input suppliers to end market buyers; the support markets that provide technical, business and financial services to the industry; and the business environment in which the industry operates. Such a broad scope for industry analysis is needed because the principal constraints to competitiveness may lie within any part of this market system. While it may be beyond the capacity or outside the mandate of a

⁵ The value chain approach considers firms to include farms and microentrepreneurs to include smallholder farmers.

donor or implementing agency to address certain constraints, the failure to recognize and incorporate the implications of the full range of constraints will generally lead to limited, short-term impact or even counter-productive results.

Figure 1. Market System



C. DEFINING SCOPE: THE VALUE CHAIN ANALYTICAL FRAMEWORK

USAID has developed a framework for understanding the scope of value chains and the market system of which they are a part. The value chain framework looks at more than just a series of linked firms: it details both structural and dynamic factors that affect the contributions smallholder farmers and other enterprises make to their market system and the benefits they derive from it. The structure of value chains includes all the firms involved in the system and is characterized in terms of the following elements:

- **End markets** define growth opportunities for value chains by determining the characteristics—including price, quality, quantity and timing—of a successful product or service.
- **Enabling environment** has local, national, regional and global dimensions and circumscribes the limits of market opportunities. Norms and customs, laws, regulations, policies, international trade agreements and public infrastructure (roads, electricity, etc.) at multiple levels can either facilitate or hinder the movement of a product or service through the market system.
- **Vertical linkages** describe the relationships between firms performing different functions in the market system and are critical for moving a product or service from inception to the end market. Vertical linkages can increase the efficient flow of goods and services toward the end market as well as benefits, embedded services and information in the opposite direction.
- **Horizontal linkages** describe relationships—whether formal or informal—among firms performing similar functions in a market system. Horizontal linkages can reduce the transaction costs for buyers to

work with many small suppliers as well as help small firms to increase their market power and generate economies of scale.

- **Supporting markets** include financial services, sector-specific services (e.g., irrigation equipment), and crosscutting services (e.g., business consulting, legal advice, and ICT) that firms need to operate, upgrade and innovate. Some services are provided by actors within the value chain, but others are provided by external service providers—as shown on the left-hand side of the figure above.

Dynamic factors influencing value chain performance characterize how firms in the market system respond to the opportunities and constraints described by the structural factors detailed above. The following elements are one way of understanding these dynamic factors:

- **Incentives for upgrading:** Firms make investments to achieve, for example, higher levels of efficiency, greater product differentiation, or reach new markets, which result in a more competitive market system and greater benefits for its participants. The incentives for upgrading are both economic (i.e., profit) and socio-cultural (i.e., social norms and beliefs that either support or counter behaviors needed to take advantage of economic opportunities). In addition, a supportive enabling environment and the availability of critical services such as finance, technology and information, can enhance and accelerate existing incentives for upgrading.
- **Inter-firm cooperation and competition:** considers the conduct between firms in a value chain, whether in vertical or horizontal relationships. Cooperation and competition can both be viewed as effective or ineffective in different contexts and at different levels in the value chain. In commercial relationships (both horizontal and vertical), the following are examples of effective cooperation and competition:
 - Cooperation is effective when firms can quickly determine and work together to resolve important joint interests (e.g., policy advocacy, capacity sharing to meet growing market demand, embedded service delivery, bulk purchasing, industry-wide branding). Cooperation is ineffective when firms collude to gain monopolistic controls (e.g., limit upgrading, seek unreasonable margins, raise barriers to new entrants).
 - Competition is effective when rivalry between firms leads to upgrading and innovation (e.g., improving product qualities, productivity and efficiency, customer responsiveness, branding strategies). Competition is ineffective when such rivalry stifles upgrading (e.g., competing based on price rather than productivity, information arbitrage, zero-sum negotiations).

D. PRINCIPLES FOR CONDUCTING A VALUE CHAIN ANALYSIS

1. **Need to keep purpose in mind** The purpose of value chain analysis is to understand systemic factors and conditions under which the target food staple crop can be produced, distributed and marketed in greater volumes, with higher quality and for lower cost, thereby contributing to increased food security and higher rural incomes. The results of the analysis should offer industry stakeholders a vision for value chain competitiveness and form the basis for a competitiveness strategy—a plan for eliminating constraints to end market opportunities and advancing sustainable competitiveness.
2. **End markets drive opportunities** The end markets into which a product or service is sold—whether local, regional or international—provide the opportunities and set the parameters for economic growth. Furthermore, constraints to the increased competitiveness of a value chain are typically numerous, but they are not all of equal importance. By understanding the opportunities in the end market, constraints

that are the most binding obstacles to exploiting these opportunities can be prioritized. Generally there are multiple actual and potential end markets, each with different demand characteristics and returns. It is therefore important to segment the market: list each of the potential end markets, what is required to compete in them, and what benefits and risks can be expected by selling into them. Since end markets are dynamic, the identification of trends should complement information about the current situation.

3. **Systemic incentives** The underlying systemic incentives, including economic incentives and cultural norms that drive behavior among actors in the value chain, supporting markets and enabling environment, need to be understood. These drivers and the constantly changing market dynamics make the environment fluid and often result in conflicting economic and social incentives. Value chain analysis must move beyond identifying conspicuous structural and transactional problems to explore the underlying, systemic drivers of these constraints. One of many ways to arrive at this more systemic level of analysis is to consider *why* a particular transactional constraint has arisen and/or has not (yet) resolved itself.
4. **Value chain governance** Governance describes which firms within a value chain set and enforce the rules under which others in the chain operate. Governance involves inter-firm relationships, power dynamics (which can be either symmetrical or asymmetrical) and the distribution of benefits. While the form of value chain governance is influenced by the characteristics of the product and the degree of specification in the end market, governance patterns evolve over time with changes in markets, products and inter-firm relationships. Increasing the competitiveness of a value chain typically requires an emphasis on consistent product quality, traceability and on-time delivery. These changes, in turn, may require a different relationship between buyers and sellers to exert the control needed to meet the demands of higher value markets. Value chain governance can therefore either facilitate or hinder upgrading and the ability to respond to market changes, especially in global markets.
5. **Identifying catalysts** Catalyst firms are those firms in a value chain with the resources, skills and incentives to drive change in the market system. Typically they are either i) firms with existing or potential commercial linkages with large numbers of smallholder farmers; or ii) potentially influential market actors that can promote competitive operations and collaborative and sustainable commercial relations with other actors in the value chain. The presence of such firms as partners in project activities can increase the scale of impact and accelerate the pace of change to more competitive production and trading practices.

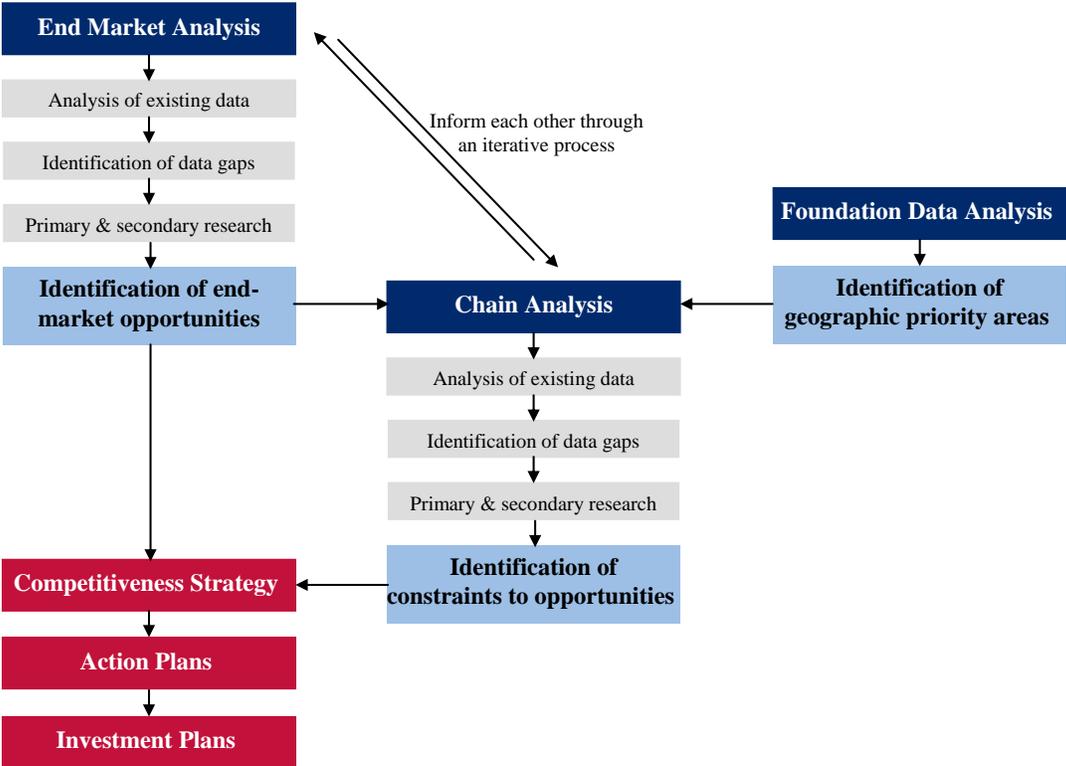
III. METHODOLOGY AND DATA NEEDED FOR VALUE CHAIN ANALYSIS

A. OVERVIEW OF METHODOLOGY

Analysis of selected staple food value chains will begin with the foundation data on production, consumption, roads and time-to-market analyses, and modeling conducted by groups including IFPRI. These data will be used to answer the first research question: Where are the high-potential areas of production of a given staple food that should be the target for interventions to address food insecurity and to improve rural incomes? The foundation data will help the value chain studies target *where* to intervene in terms of markets, areas of production and current and emergent flows between the two. The value chains studies will focus on priority opportunities in light of end-market competitiveness factors, obstacles to these opportunities in priority target areas, as well as a strategy and actions needed to improve value chain competitiveness, food security and rural incomes.

The methodology uses end-market analysis to identify opportunities, moves into chain analysis to understand the constraints to these opportunities, develops a strategy for creating competitive advantage, and finally a plan for investment and intervention that clarifies roles for the private sector, donors and government (see Figure 2).

Figure 1. Overview of Methodology



B. COMPLEMENTARY STUDIES (EXISTING OR TO BE CONDUCTED)

The value chain studies will build on existing research and use existing databases as well as collect additional data as needed to attain its objectives. Literature on staple food crop value chains in West Africa will be collected and reviewed. In addition, several complementary studies will be undertaken.

1. *Existing base information on production, consumption, cost of transport and cost of distribution*

Data and GIS maps from IFPRI and possibly others can help identify the highest potential areas of production, areas of consumption and target areas where interventions might have the greatest impact. These data include the existence and quality of roads and ease of movement along these roads, climatic and soil conditions, cross-border barriers and costs of transport from production areas to markets. This information will provide a foundation to help target the locations of the value chain studies.

2. *Information obtained/to be obtained through trade flow studies*

EGAT/EG is leading analyses of trade flows of GSFR-selected food staples. The trade flow studies will draw on existing analyses, which mapped the value and volume of selected staple foods and agricultural inputs (such as seed and fertilizer), regional overland and international shipping routes that flow from West Africa, and international food trade targeting West African consumer populations, and, in particular the food insecure. Additional data gathering will be done as needed.

The analysis will focus on overland food trade routes and flows to and from regional ports and the role of food imports into the region under various conditions (such as low production/drought, high international prices, and seasonal patterns). The following corridors have been identified as key transportation routes within the region and to and from ports to the interior of West Africa:

- Ouagadougou-Tema
- Ouagadougou-Lomé
- Ouagadougou-Abidjan
- Dakar-Bamako
- Bamako-Abidjan
- Monrovia-Abidjan
- Lagos-Maradi (Niger)
- Ouagadougou-Maradi
- Niamey-Cotonou

3. *Information obtained/to be obtained through use of the BizCLIR tool*

The BizCLIR assessment tool offers a comprehensive methodology for business environment reform using a 360-degree stakeholder assessment. The methodology considers each of the Doing Business topics at a deeper level by analyzing more than 1,000 indicators. Within each of the topics, the team evaluates four pillars of the business environment: the legal framework, implementing institutions, supporting institutions and social dynamics. The resulting assessment provides data for understanding the constraints to business entry, operation and growth. Governments, donor organizations and other stakeholders can use this framework to correct inefficiencies in the country's laws and institutions.

4. *Information obtained/to be obtained through studies of the agricultural inputs industry*

IFPRI together with IFDC will focus on four transport corridors to develop a model for understanding the costs in the distribution and marketing of fertilizer and seed. The research will provide a strong spatial analysis for measuring logistical constraints that lead to high prices for inputs and will facilitate modeling of the affects of changes in the price of inputs. However, utilization of fertilizer is more complex than being a function of price and efficiency of delivery and marketing. The value chain analyses will therefore complement the studies of the fertilizer and seed industry with analysis of incentives and disincentives for input utilization, looking in particular at: the return on investment and perceived risks of using fertilizer for selected crops, difficulties in accessing financing, and additional incentives or disincentives.

tives related to information on how to use inputs effectively, relationships with traders and/or input suppliers, and the like.

5. *Information obtained/to be obtained through studies of access to ICT-related services*

This should be GPS-mapped information on access, affordability, and current usage of two types of telecom services – mobile phones and the Internet. For mobile phones, this includes accessible providers, strength of signal, usage patterns, and other applications in use, such as SMS. For internet, the data to be collected include accessibility, cost, interconnectivity, bandwidth, and usage patterns. Collecting this information while other field work is being done is much easier than trying to reconstruct it later.

Data should also be collected related to information flows by type—the degree information is accessible to different types of users, and its accuracy, timeliness and usefulness (i.e., is it the information needed by the potential user). Information types include market information, farm extension information, information flows related to support services and information related to inputs.

C. STEPS IN THE DATA COLLECTION PROCESS

STEP I: IDENTIFY KEY REGIONAL END MARKETS FOR SELECTED STAPLE FOODS AND OPPORTUNITIES IN THESE END MARKETS

1. *End-Market Analysis Methodology*

End market analysis goes beyond confirming the general existence of demand to understanding market trends, high-potential market segments, benchmarking and market positioning. Research into market trends highlights where the industry is headed in the future in terms of opportunities, problems and competition. Market segmentation identifies the segments of the larger market that offer the greatest opportunity for a particular value chain, given its capacity. Within a market segment, benchmarking identifies and compares competitors with one another against criteria important to buyers. Finally, market positioning involves identifying the various positions of competitors in a given market segment in terms of their competitiveness strategy (lower cost, better quality, etc.) and selecting a position that will maximize competitive advantage. While secondary data can be important to understanding market trends, primary research with buyers is critical to effective segmentation, benchmarking and positioning.

USAID commissioned an end market analysis tool that offers a methodology for analyzing end markets and can be found at http://www.microlinks.org/ev_en.php?ID=39116_201&ID2=DO_TOPIC

2. *Data Needed for End-Market Analysis*

The data needed include:

- spatial location of key regional markets for staple foods
- quality and volumes of staple foods demanded in end markets
- seasonal changes in volumes, quality and prices of West African and imported staple foods sold in markets
- sources of supply to these markets and time to market for imports and West African staple foods
- key buyers in these end markets
- product and operational characteristics critical to buyers in making buying decisions
- trends in end-market demand, including changes that occur during food price spikes
- market segments

- benchmarking of West African suppliers (at the national level and sub-national if regional variances are strong) and their competitors against these characteristics
- market positioning of competitors
- use of ICT by target end market buyers with their suppliers

3. Plan for Collecting Data Needed for End-Market Analysis

- Secondary data will be culled from studies already conducted
- Primary surveys will be conducted with buyers in key end markets
- Spider diagrams will be developed to understand product and operational characteristics benchmarked across key suppliers

STEP 2: IDENTIFY CONSTRAINTS IN SELECTED STAPLE FOOD VALUE CHAINS TO TAKING ADVANTAGE OF END-MARKET OPPORTUNITIES AND IMPROVING VALUE CHAIN COMPETITIVENESS

1. Methodology for Analyzing Constraints

Without market demand, increases in staple food production may lead to higher levels of on-farm consumption, but will not result in increased rural incomes and therefore resilience against shock, which is essential for long-term food security. To ensure a strategic approach that maximizes resources, USAID/EGAT's value chain methodology does not analyze *all* constraints to increased productivity or competitiveness, but narrows the scope to constraints to taking advantage of identified end-market opportunities. Additionally, and as noted above, the constraints analysis targets both tangible and intangible constraints and focuses on systemic constraints that go beyond those experienced by individual firms and relate to the business environment, the vertical and horizontal coordination needed to get product to market, incentives and disincentives for investing in upgrading, and inter-firm relationships in the form of trust, social capital and willingness to cooperate and constructively compete.

The methodology used for analyzing constraints is found on www.microlinks.org/vcwiki (select Value Chain Analysis). It begins with a mapping of the value chain using methodologies developed by MSU in the 1990s and adds to that the structure of end markets and services markets. The value chain framework is used to understand constraints to systemic competitiveness and the depth and breadth of benefits.

For many of the value chain analyses, data will be available from IFPRI, missions, other donors and host country governments. This information, together with data from the end market analysis, will help guide the selection of geographical areas to focus value chain analysis field work. During the course of the value chain analyses, researchers may also identify new areas to prioritize for study and intervention through discussion with value chain stakeholders and key informants.

2. Data Needs for Constraints Analysis

The data needed include:

- a basic value chain map showing final products and markets, key value chain functions, market channels, numbers and types of value chain actors and the linkages between them, and support services
- quantitative data on added value or gross margins of each function
- trends in volumes and values of product flowing through different market channels
- opportunities or constraints in the local, national or regional business enabling environment, and their current and anticipated impact on value chain participants

- the efficiency of transactions and the identification of any weak or missing vertical linkages
- constraints in critical information flows vertically or horizontally as well as ICT-enabled opportunities to improve these flows or imbalances
- the volume and quality of services disseminated through vertical linkages
- areas where collaborative bargaining power could reduce the cost or increase the benefits to smallholders operating in the chain
- quality and availability of existing support services and gaps in service provision
- opportunities and incentives for upgrading
- trends in governance patterns in the value chain
- quality of inter-firm relationships

3. Plan for Collecting Data for Constraints Analysis

- Review of existing industry reports, subsector studies or value chain analyses and identification of gaps in information
- Interviews with actors in the value chain, support markets and enabling environment, as well as with industry experts

STEP 3: IDENTIFY BARRIERS TO TAKING ADVANTAGE OF CROSS-BORDER TRADE OPPORTUNITIES

1. Rationale

To reduce price volatility in the region and encourage investment, staple foods must be able to pass across borders from areas of surplus to areas of deficit. Furthermore significant efficiencies can be created by linking value chain actors and support service providers in neighboring countries along trade corridors. USAID has set as a goal doubling West Africa regional trade of food staples in selected corridors by 2011. This will require reductions in the time and cost to trade. To accomplish this, the cost and availability of communications and the reliability of transport must be improved; taxes, tariffs and corruption must be reduced or eliminated; agricultural trade standards, customs operations and other regulatory procedures must be harmonized; and infrastructure must be improved.

2. Data Needed for Cross-border Trade

Data needed include:

- volumes and values of products being transport across selected corridors
- logistical constraints affecting time-to-market (including multi-modal infrastructure such as roads, border stops, rail, ports, inland water ways, etc.)
- costs and reliability of transport and distribution
- business environment constraints to regional trade (BizCLIR, Fast Path, etc.)
- vertical linkages and coordination in the areas of trade and transport
- supporting markets for trade and transport (processing, storing, bagging, financing)
- telecommunications constraints or opportunities (e.g., cross-border electronic financial transactions)
- value chain governance (power dynamics in coordination of the chain)

3. Plan for Collecting Data on Cross-border Trade

- Analysis of IFPRI, Fast Path, WATH , ATP and BizCLIR research.

4. Methodology

Work on cross-border trade has been undertaken by USAID/EG, USAID West Africa and the Trade Hubs. Further work may be needed focused on constraints to informal trade. This existing and future analysis will inform the value chain studies.

D. DEVELOP SHORT-, MEDIUM- AND LONG-TERM STRATEGIC PLANS FOR CREATING COMPETITIVE ADVANTAGE IN SELECTED STAPLE FOOD VALUE CHAINS THAT INCLUDE LARGE NUMBERS OF SMALLHOLDERS AND WOMEN

Michael Porter defined three strategies for creating competitive advantage: efficiency, differentiation and market focus.

- To compete based on *efficiency* a value chain must produce a product and deliver it to the end market at a lower price than its rivals in other regions or countries. *Firms* within a value chain must benchmark their costs of production against competitors; while as an *industry*, these firms must consider external costs such as tariffs, transport and communications. An industry perspective ensures that a strategy considers the competitiveness of firms, their enabling environment and support services.
- To compete based on *differentiation* a value chain must market or add value to its product such that it is considered unique amongst its competitors. Differentiation through marketing can be achieved through branding or packaging, or simply by increasing spending on promotions. Differentiation through marketing alone, however, is a risky strategy that is unlikely to be sustainable without complementary investment in product improvements.
- To compete based on *market focus* a value chain selects and targets a narrow segment within the end market. Niche markets may be defined by timing considerations (off-season produce), branding, social concerns or health considerations (fair trade, organic) or specialty market channels.

To ensure that plans increase competitiveness while simultaneously increasing benefits to large numbers of smallholder farmers and women, the following data will be needed from the end market and chain analyses:

- numbers of smallholder farmers and women with opportunities to improve productivity and marketing efficiencies of staple foods
- numbers of smallholder farmers and women with opportunities to upgrade operations in response to demand in higher-value end-market segments
- expected increase in profits for smallholder farmers and women as a result of upgrading
- expected increase in non-economic benefits for smallholder farmers and women as a result of upgrading

When designing a competitiveness strategy, practitioners need to involve stakeholders at all levels of a value chain in developing:

- 1) an end-market competitiveness plan that determines the industry's competitive advantage
- 2) a commercial upgrading plan, and
- 3) a plan for sustaining competitiveness.

These elements rely on both information from the value chain analysis and active involvement by the private sector to create a focused approach to improving and sustaining industry competitiveness. For tools and examples of the development of industry competitiveness strategies, see http://apps.develebridge.net/amap/index.php/Competitiveness_Strategy

E. IN LIGHT OF THE INDUSTRY STRATEGY, DEFINE ROLES FOR USAID, THE PRIVATE SECTOR, THE GOVERNMENT AND CAADP

The goal of the value chain approach is to enable private-sector stakeholders to act on their own behalf: to upgrade their firms and collectively create a competitive value chain that contributes to greater food security and increased rural incomes. The role of USAID is to facilitate and support implementation of the competitiveness strategy by the private sector in such a way that ensures that large numbers of smallholder farmers and women contribute to and benefit from the increase in competitiveness. The government's primary responsibility is to ensure that the enabling environment fosters increase competitiveness.

CAADP is coordinating investments across donors, and value chain strategies must fit within the CAADP framework and support the vision articulated by CAADP. Moreover, USAID's role must additionally complement, enhance and most importantly not undermine actions that are best taken by the private sector. Sustainable improvements in competitiveness can only be achieved if driven by the private sector and government.

F. RECOMMEND INVESTMENTS FOR THE SHORT-, MEDIUM- AND LONG-TERM FOR USAID AND FOR THE VARIOUS MISSIONS

Recommendations for investments should target *points of leverage* that have a multiplier effect on interventions in order to maximize impact and outreach. Points of leverage include the following:

- Economic structures—product or service aggregation points and actors with the ability to influence large numbers of stakeholders (e.g., lead firms, traders, input suppliers).
- Information flows—ICT-enabled opportunities to empower players in the value chain with information and options for reducing the costs of services.
- Social structures—respected community members, chiefs and elders who are able to influence others to collaborate or to adopt new techniques, technologies, services or inputs.
- Commercial incentives—competition and/or firm strategies that can be used to pressure buyers, traders and others to change predatory or abusive behavior.
- Social incentives and norms—social factors that influence decision-making, particularly at the micro- and small enterprise level.

Investments may be recommended to support development of the staple food crop value chains themselves, or to strengthen input and support markets, or even to increase the competitiveness of rotation crops. Attention should also be given to the (dis)incentives generated through food aid and poverty alleviation programs that focus on providing productive inputs outside of existing market channels.