

d·i·e

Deutsches Institut für  
Entwicklungspolitik



---

# Using global value chains for national development

Tilman Altenburg,  
German Development Institute, Bonn

OECD/ Gulf Organization for Industrial Consulting,  
Policy Dialogue on Aid for Trade,  
Doha, 6-7 November 2006



# 1

## **Addressing supply-side constraints: Why it is important to understand value chains**

# International trade is increasingly “governed”



## The value chain concept ...



... acknowledges that most trade is structured/  
governed by dominant firms;

... shows that power relations are crucial to  
understand how entry barriers are created, gains  
and risks distributed;

... adopts a global perspective, draws attention to  
the role of actors external to clusters;

... draws attention to knowledge flows / learning.



VC concept is not an alternative to traditional supply-side policies (“cluster development”, “export promotion” ...) but an **analytical concept** that helps

- to understand overall trends of industrial reorganization and
- to identify binding constraints, change agents and leverage points for policy interventions.



# 2

**Is the trend towards governed value chains good for developing countries?**

## Opportunities



1. TNCs increasingly subdivide and dislocate production processes, lower transport/ transaction costs enable developing countries to capture such processes. New special niche markets emerge – not only factor-cost driven!
2. Modern chains require smooth product flows, high standards, error-free production. Lead firms therefore willing to invest in knowledge transfer.
3. Consumer pressure and CSR provide incentives for responsible lead firm behaviour.

## Threats



1. Lead firms (brand owners, innovators, systems integrators) appropriate increasing share of rents. These are mostly OECD-based => Widening gap.
2. Increasing entry barriers for SMEs/ farmers: economies of scale, know-how, cost of compliance etc.
3. Subordinate firms are standard-takers. Decreasing bargaining power => decreasing share of rents

## Net effects ...



- ... are difficult to estimate.
- Threats probably > opportunities.
- However: **Value chain reorganization happens, want it or not! Governments can only help to shape organization in the most pro-poor and competitive way.**

## Trade-offs



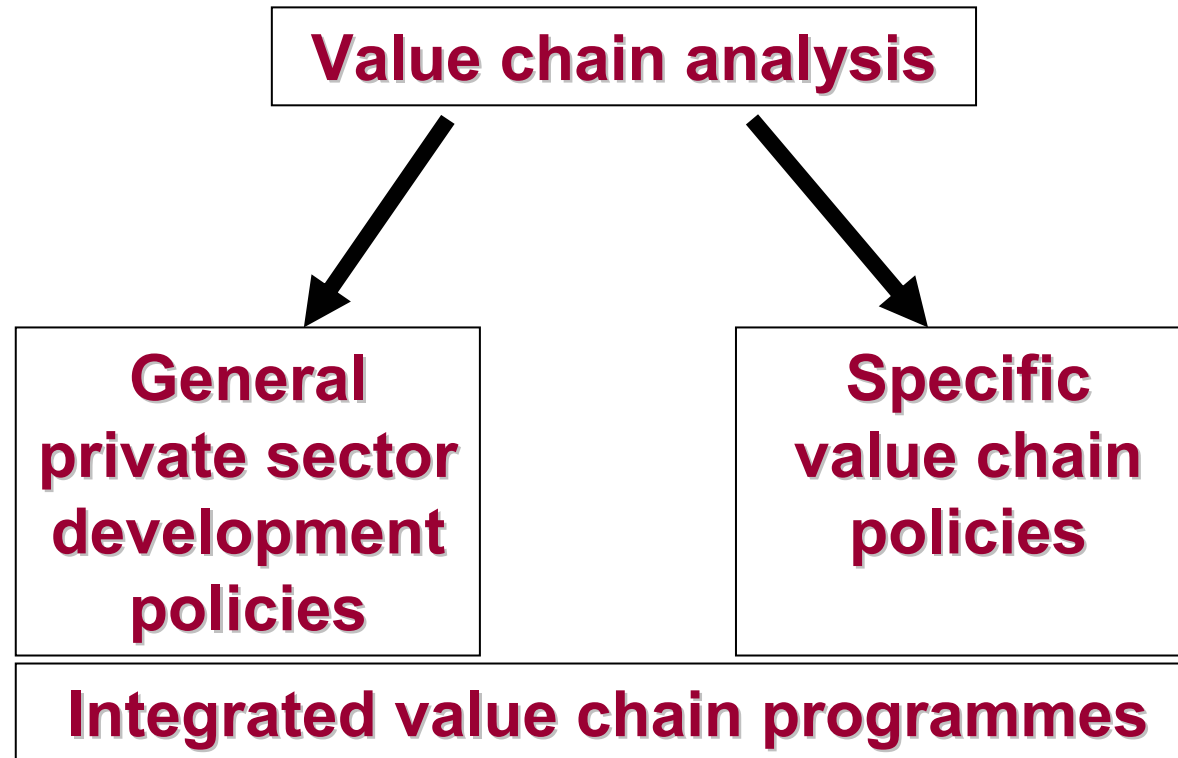
- shifting from in-house production to external suppliers may reduce well paid wage labour in the lead firm and increase lower quality jobs in supplier firms;
- increasing social or environmental standards may lead to the exclusion of poor informal suppliers ...
- ... and jeopardise competitiveness vis-à-vis competitors with lower standards;
- inducing foreign firms to source from local small-scale suppliers may be favourable for local technological learning but lessen efficiency of supply chain;
- holding back concentration and internationalization in retailing may protect SMEs but lead to higher consumer prices; etc.



# 3

## **Policies to support pro-poor value chains**

## Elements of value chain policy



## Value chain analysis ...



- should be carried out prior to any intervention in order to assess risks and opportunities;
- helps to identify opportunities to include poor producers in modern VC and for upgrading;
- helps to recognize trade-offs;
- serves to identify change agents and ways to deal with them (esp. lead firms).

## General private sector development policies



... highly relevant for VC development, include

- creating good investment climate
- liberal trade and investment policies
- tax policies that tax on a value-added basis
- skills development and innovation policies
- financial and non-financial business services
- etc.

## Specific value chain policies



### 1. Awareness raising and matching between potential customers and suppliers

- \* Info and motivation events
- \* Subcontracting Exchange Schemes
- \* Supplier fairs, exhibitions

### 2. Supporting spillovers from lead firms

- \* Co-financed grant schemes for private sector-led initiatives
- \* Tax and financial incentives for lead firms
- \* Incentives for CSR

## Specific value chain policies



### 3. Value chain finance

- \* Factoring

- \* Warehouse receipts

( + legal provision to ensure prompt payments)

### 4. Promotion of inclusive standards

**Attention: Specific policies require efficient outcome-oriented modes of delivery !!!**

d.i.e



Thank you !