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Vertical coordination in agri-food chains – Implications for Policy and Trade

Samarkand Conference 2016

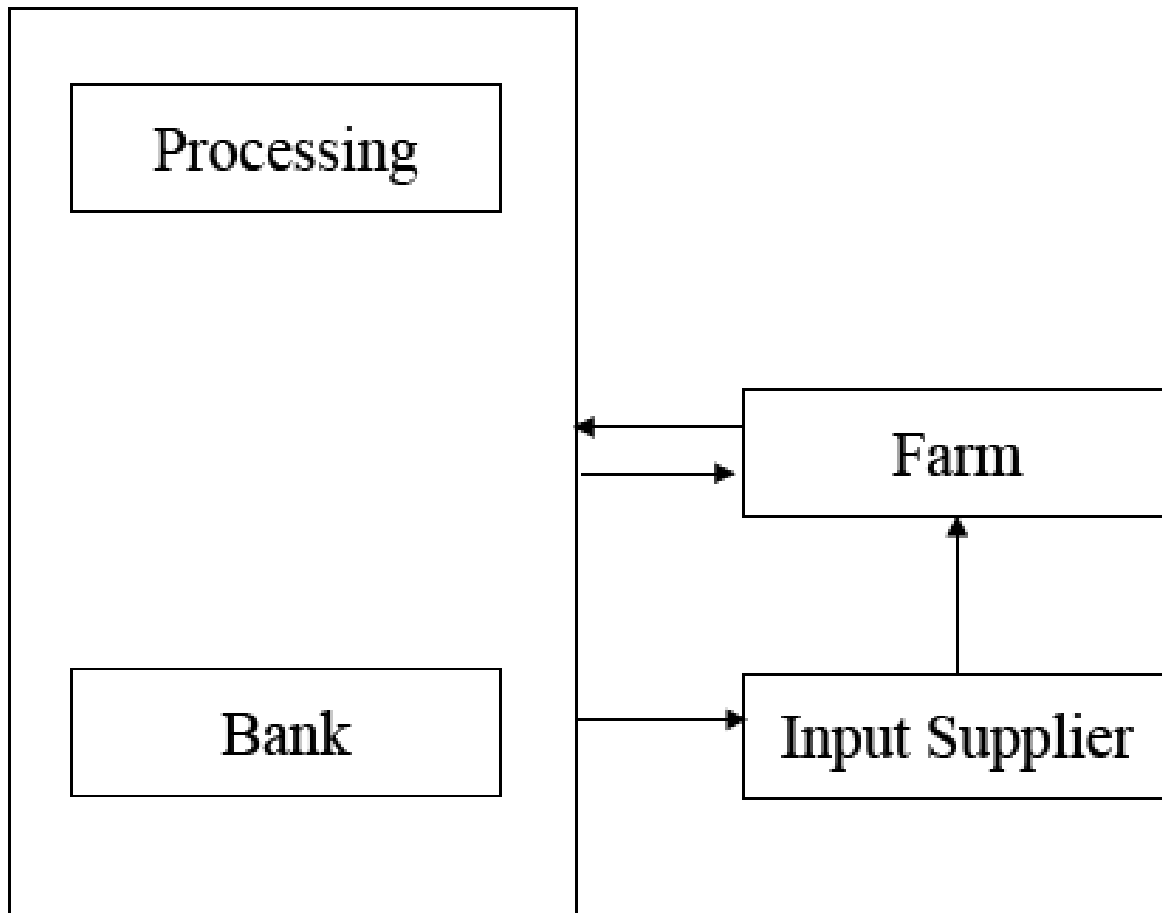
Liesbeth Dries, 3 November 2016



Introduction

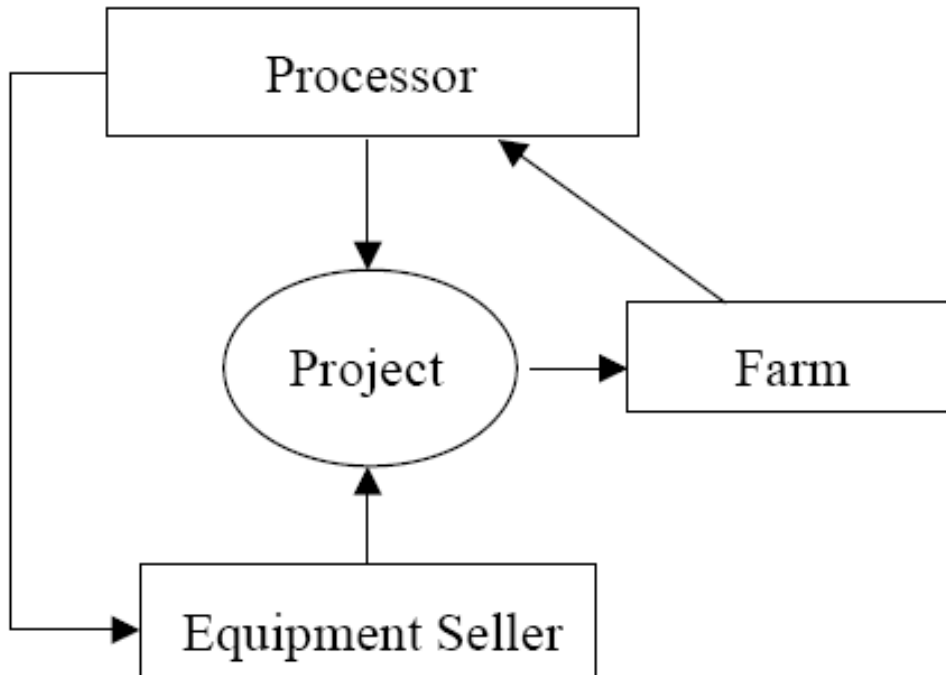
- Vertical coordination – what is it?

Vertical coordination – what is it?



Vertical coordination – what is it?

Box A3: Leasing of dairy equipment by joint leasing project (Wimm Bill Dann (WBD) – De Laval)



Introduction

- Vertical coordination – what is it?
- Insights from own work in Central and Eastern Europe, mainly dairy sector [but also in other regions and other sectors]

Vertical coordination: overcoming challenges

- Challenges agriculture Uzbekistan (World Bank, 2010)
 - Distortions agr. input and output markets
 - Lack of access to finance
 - Poor quality public services (extension, agr. education, market information,...)
 - Poor quality seeds
 - Insufficient irrigation
 - Delays in farm restructuring
 - Sub-optimal farming system design
 - ...

Vertical coordination: overcoming challenges

**Imperfections in input
and output markets**



**Vertical coordination
=
Linking input and
output markets**

Vertical coordination: overcoming challenges

- Poland, dairy
- Share of farms with access to support programs (%)

| support | % farms |
|---------------------------|----------------|
| Credit program investment | 71.5 |
| Credit program cows | 72.1 |
| Input supply program | 78.1 |
| Loan guarantee program | 37.2 |

- Armenia, dairy

| Support measure | % farms with support |
|----------------------|----------------------|
| Prompt payments | 87.7 |
| Quality control | 82.7 |
| Guaranteed prices | 46.7 |
| Credit | 30.7 |
| Veterinary support | 23.7 |
| Transportation | 20.3 |
| Physical inputs | 16.3 |
| Farm loan guarantees | 4.0 |
| Investment loans | 1.7 |

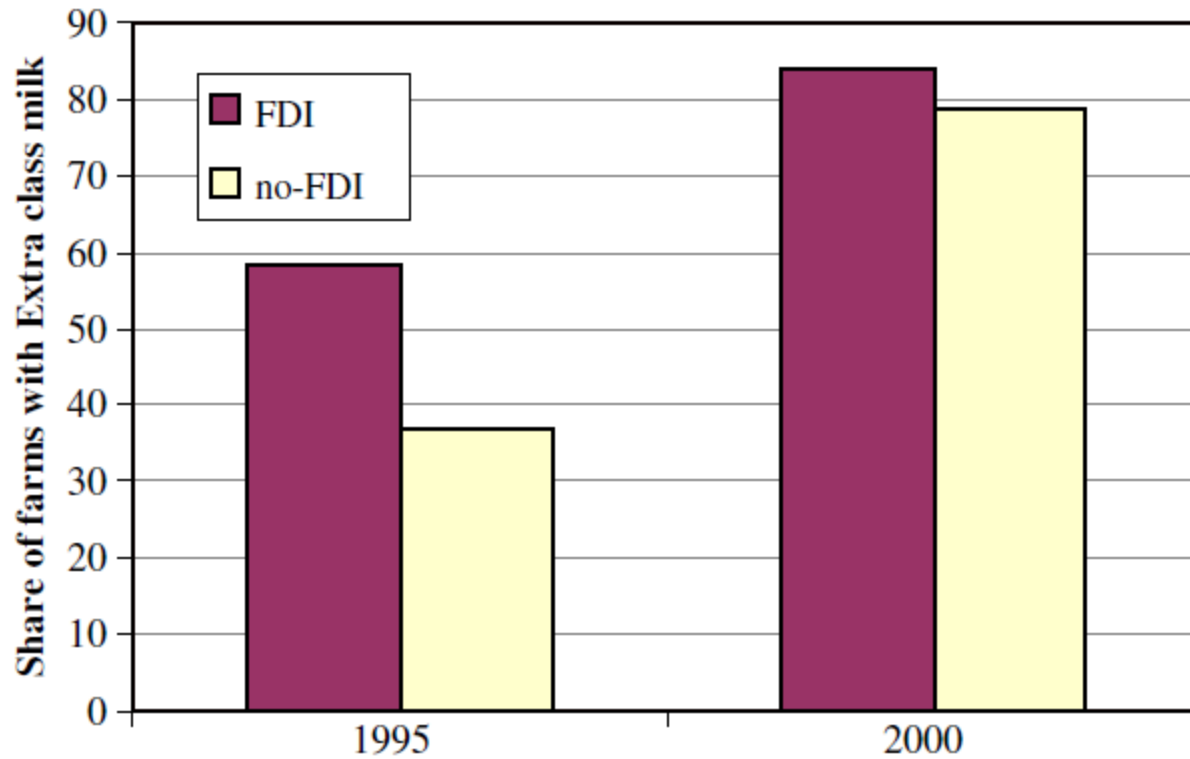
Vertical coordination: overcoming challenges

- Is vertical coordination just a way to squeeze farmers?
- Are these examples isolated cases? No

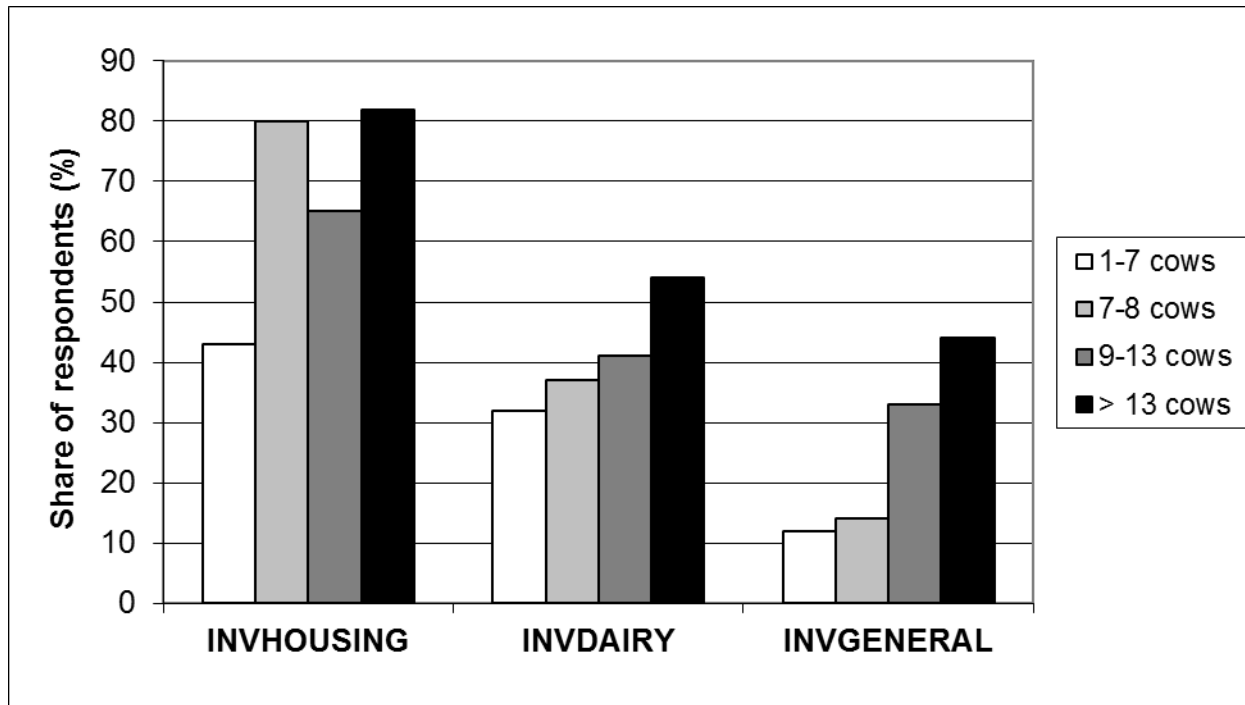
Vertical coordination: Drivers?

- Why are processors / exporters doing this?
 - For volume
 - For quality
 - For reliability of supply

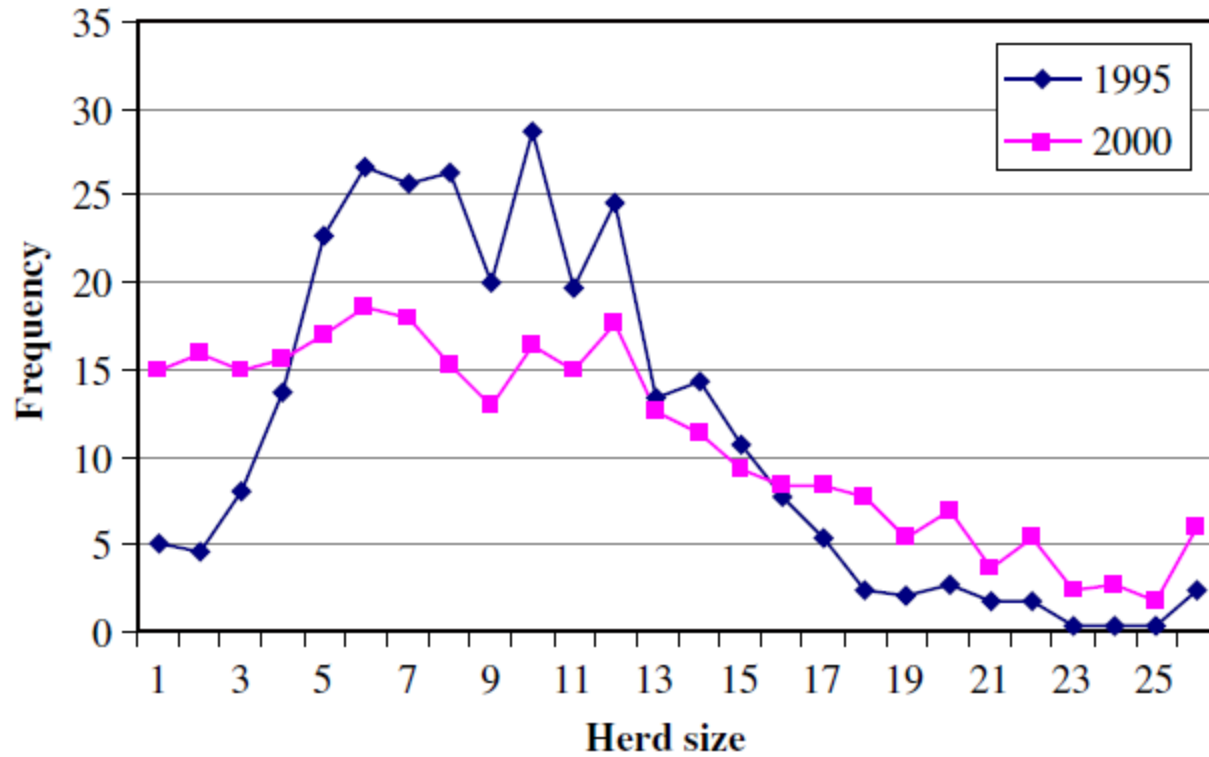
Vertical coordination: Drivers?



Vertical coordination: Drivers?



Vertical coordination: Drivers?



Vertical coordination: Drivers?

- Why are processors / exporters doing this?
 - For volume
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Vertical coordination: Lessons learned?

- Vertical coordination and support programs are important in stimulating on-farm investments:
 - Direct: dairy loans and credit
 - Indirect: input supply and prompt, guaranteed payments
- Importance of openness to stimulate support
- But competition may have ambiguous effects

Vertical coordination: Lessons learned?

- Concluding remark
 - Importance of high value products
- Opportunities for vertical coordination in agri-food chains in Central Asia and southern Caucasus?

Thank you for
your attention

Questions?

