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?
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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
  - ...

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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 (%)

<table>
<thead>
<tr>
<th>support</th>
<th>% farms</th>
</tr>
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<tbody>
<tr>
<td>Credit program investment</td>
<td>71.5</td>
</tr>
<tr>
<td>Credit program cows</td>
<td>72.1</td>
</tr>
<tr>
<td>Input supply program</td>
<td>78.1</td>
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<tr>
<td>Loan guarantee program</td>
<td>37.2</td>
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- Armenia, dairy
<table>
<thead>
<tr>
<th>Support measure</th>
<th>% farms with support</th>
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</thead>
<tbody>
<tr>
<td>Prompt payments</td>
<td>87.7</td>
</tr>
<tr>
<td>Quality control</td>
<td>82.7</td>
</tr>
<tr>
<td>Guaranteed prices</td>
<td>46.7</td>
</tr>
<tr>
<td>Credit</td>
<td>30.7</td>
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<tr>
<td>Veterinary support</td>
<td>23.7</td>
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<tr>
<td>Transportation</td>
<td>20.3</td>
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<tr>
<td>Physical inputs</td>
<td>16.3</td>
</tr>
<tr>
<td>Farm loan guarantees</td>
<td>4.0</td>
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<tr>
<td>Investment loans</td>
<td>1.7</td>
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</tbody>
</table>
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?

![Bar chart showing the share of farms with extra class milk in 1995 and 2000 for FDI and no-FDI cases.](chart.png)
Vertical coordination: Drivers?
Vertical coordination: Drivers?
Vertical coordination: Drivers?

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