GLOBAL VALUE CHAIN: THE NIGERIAN PERSPECTIVE

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Abstract

Over three decades Nigeria had undertaken various economic reform strategies viz exploitative agricultural project, direct production, and integrated rural development were gear towards the achievement of food self-sufficiency, food security, generation of gainful employment, increased production of consumables, raw materials industries, increased production and processing of export crops, rational utilization of agricultural technologies for the improvement of life of its citizens. The effect of economic reforms on the agricultural sector, their fundamental roles of food security, supply of raw materials to industries, provision of market, employment, foreign exchange , generation of savings for investment were all examined. Agriculture contributed less in output market, foreign exchange and capital formation due to policy instability and poor implementation among others. An enduring genuine democracy and good governance should thrive in Nigeria for poverty reduction, sustainable livelihood and food sufficiency for a comprehensive economic development and attainment of the Millennium Development Goals.

The Nigerian economy has achieved a good measure of economic growth, largely due to relative political stability, more efficient institutions, and consistent economic policy direction. The democratic space created as a result of Nigeria's return to civilian rule in 1999 provided a favourable environment for deepening economic reforms. Successive administrations boosted the economy by creating enabling environment for businesses to thrive, with the private sector leading the development process in line with the guiding principle of industrialization initiatives. A number of development plans were drawn since independence with a view to optimally harness the abundant human and material resources for the benefit of all. These include the First National Development Plan (NDP);-1962-1968, the Second NDP;-1970-1974, the Third NDP;-1975-1980 and Fourth NDP;-1981-l985. Despite the formulation and implementation of these plans, the Nigerian economy in the 1980s suffered some inherent challenges, including overbearing role of the state in the economy. A development drive based on import substitution which further exposed the economy to externalities such as the fall in oil prices, depreciation of the value of the naira, reliance on imported raw materials, to mention a few. This led to the adoption of the Structural Adjustment Programme (SAP) in 1986. Its objectives were to remove import licenses, reduce tariffs, open the economy to foreign trade, promote non-oil exports through incentives, and achieve national self-sufficiency in food production.

The SAP could not yield the desired result hence its replacement with a regime of a three-year Rolling Plans of 1990-1993. With the return of civilian rule in 1999, the Government took stock of the key issues militating against the performance of the economy and introduced several reform measures Adeyemi (1996). This led to the development of the National Economic Empowerment and Development Strategy (NEEDS) framework, which resulted in improved outcomes in the areas of external debt relief, improvement in key microeconomic indicators, etc. In conformity with the Market-oriented principle, the Nigeria vision 20:2020 developed as a long term strategy for transforming the Nigerian economy to become one of the top 20 economies by the year 2020. This aspiration is centered on optimizing Nigeria's human and natural resources to achieve rapid economic growth, and translating this growth into equitable social development for all citizens.

The performance of the economy was also inhibited by an infrastructure deficit. Electric power supply is significant to sustainable growth and development, unfortunately the poor state of electricity infrastructure has resulted in epileptic supplies, which has contributed significantly in crippling the real sector of the economy. Significant effort has been made to improve infrastructure in the country. Government effort to reduce the infrastructure deficit and provide basic services has been constrained by a consistent increase in Government recurrent expenditure, which has consistently crowded out capital expenditure. Recurrent expenditure as a proportion of total Government expenditure has steadily increased. Nigeria's public expenditure profile does not compare favourably with those of peer economies such as Brazil, India, Indonesia, and South Africa; neither does it with the bottom five of the top twenty most developed economies, a club to which Nigeria aspires to join by 2020. Developments in the global economy also had a mixed effect on the Nigerian economy in the past decade. Being a single commodity-dependent economy, shocks in the global market are easily transmitted to the national economy. Financial crisis that engulfed the world during 2008-2009 and the current debt crisis in the Euro Zone have impacted negatively on macroeconomic aggregates in the Nigerian economy. This has introduced additional complications to the task of managing the Nigerian economy.

Finally, the implication of Nigeria's three-tier federal system is that all tiers of government have relative administrative, financial and political autonomy. To ensure harmony in the management of the economy, the system makes provision for a robust mechanism for the coordination of plans policies and programmes of the tiers of government. However, while the federal government has developed long-term and medium-term development strategies with an institutionalized framework for implementation, monitoring and evaluation (M&E), the process is yet to be fully institutionalised in all the Federal Ministries, Departments and Agencies (MDAs). Thus very few states and local governments have a strategic framework for channeling their financial resources towards implementation of the proposed programmes and investment plans contained in the first National Implementation Plan (1st NIP). If properly harnessed, this huge amount can stimulate economic growth and expansion, especially given the central role of the lower tiers of government in the development of human capital and infrastructure. Given the above achievements and challenges, the need to consciously track progress in the implementation of Nigeria's strategic plans becomes very critical. This necessitates consistent review of the performance of the economy. As part of its mandate, Nigeria Production Council (NPC) tracks developments in the economy and also reviews the performance of the economy periodically.

Theoretical Approaches to Value Chains

During the past decades there has been extensive theory building in the field of value chains. Lazzarini(2001), reflected in many definitions and analytical approaches. Scientific and can be grouped into four streams :

I. Global value chain analysis, focusing on the position of the lead firm in value chains and power relationships between direct consumption producers and Western markets or Multi-National Corporations (MNCs)

2 Supply chain management; studying the management of inter company operations (flows of products,

information and capital) between different links in the chain.

3 New institutional economics study the governance of bilateral transactions between companies.

4 Social network Theory, focusing on vertical and horizontal interrelationships including economic and social interactions in production networks. In the following section the four approaches are further explained.

Global Value Chains

The Global Value Chains (GVC) Issues and Concept

Kaplinsky and Morris (2000) provided the following definition of the value chain as "the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use." A further distinction is made between simple and extended value chains indicating the complexity in a real world situation. An advantage of the value chain approach is that the effects of upstream and downstream events are taken into account. Porter M.and Kramer M.(2002) asserts that global value chain refers to hiding local producers from developing countries to international markets. Raw material producers are linked with the final consumers, which organization is involved in this process and their importance.

The global value chain (GVC) concept emphasize that there may be a huge distance between the local producer of goods or services and its global consumer Bair, (2005). The big advantage of the GVC concept is that the development of economic activities is put in a context of resources and markets, of individual entrepreneurs and clusters of producers competing in local, regional or international markets Bair and Gerefi, (2001). The value chain literature focuses on export oriented agro-industries, which are usually privately owned and managed and may have a governance structure enforcing compliance with international standards. Humphrey and Schmitz,(2004). A value chain for apples is more differently organized than an iron ore chain. A global automobile chain is difficult to compare with the production of staple foods for the local market. International chains, for example, require market access abroad, which requires good quality products. The value chain concept is both relevant in the private and public sectors? It may add to understanding of certain activities to analyze the supply of services like water and electricity as a value chain. In the case of water or electricity, which are usually provided by publicly owned utilities. The raw material (coal or gas) needs to be imported and the management may be delegated to a foreign private firm.

The conceptualization of electricity generation and distribution as an international global value chain adds to understanding of the functioning and dynamics of that chain. Besides the official chain for drinking water and the official network for electricity, there may exist at parallel and competing chains of private drinking water supply (through vendors or by going to the source yourself), or people may use alternative sources of energy, such as small-scale generators.

Ten Important Concepts Concerning Global Value Chain

Basic Concepts	More Analytical Questions
1. Definition of global value chains 2. Analysis of the global , nation or local level 3. Vertical and horizontal relations in value chains(co-operate business model) 4. The influence of production standards 5. Value chain governance.	6. The distribution of value in the global value chains 7. Factors affecting the economic and financial viability of Global Value Chains (GVCs) 8. Constraint to Global Value Chains (GVC) development 9. Upgrading Global Value Chains and the role of partnership in up grading. 10. Making value chains more competitive at all levels.

Fig 1

The Level of Analysis: Global, Macro, Meso or Micro

The level of analysis of value chains can be the global, macro, meso or micro level Gerefi and Kaplinsky, (2001). In the first case, the whole chain is taken into consideration, while in the last case focus is on the position of the (small-scale) producers in the chain. Macro-level analysis would refer to studying the chain at the national level, while meso usually refers to regional or city-level activities. Figure 2 illustrates how factors influencing the value chain can be global factors, national level factors, regional, cluster or city level factors or internal factors.

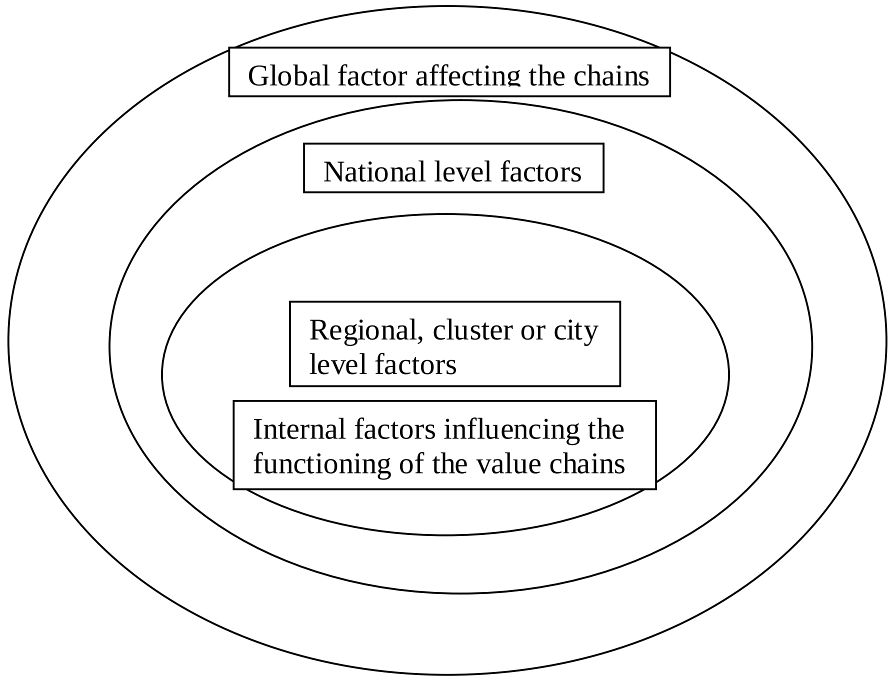

Figure 2: Factors Affecting the Global Value Chain

Vertical and Horizontal Relations in Global Value Chain

Most pictures of value chains show a vertical chain. However, local producers work together in all kinds of "business models". Thus attention will be on these models and emphasis on the importance of producer organizations, clusters and networks. Enterprises in value chain which often use different business models are geographically concentrated in clusters and each cluster has its own level of development and dynamics Van Dijk and Sverrisson, (2003). Similarly, value chains can be emerging, stagnant or dynamic and for each of these stages it is possible to do nothing to leave the development to the market or to develop a value chain upgrading strategy Guilani E. (2005). If such a strategy is developed it is important to know which organization could implement the upgrading strategy: An association of entrepreneurs, a local enterprise support institution or local government agencies Altenburg, (2006).

The interface between clusters and value chain, is emphasized in figure 3, Van Dijk,(2006), or between a vertical and a horizontal analysis of related economic activities.

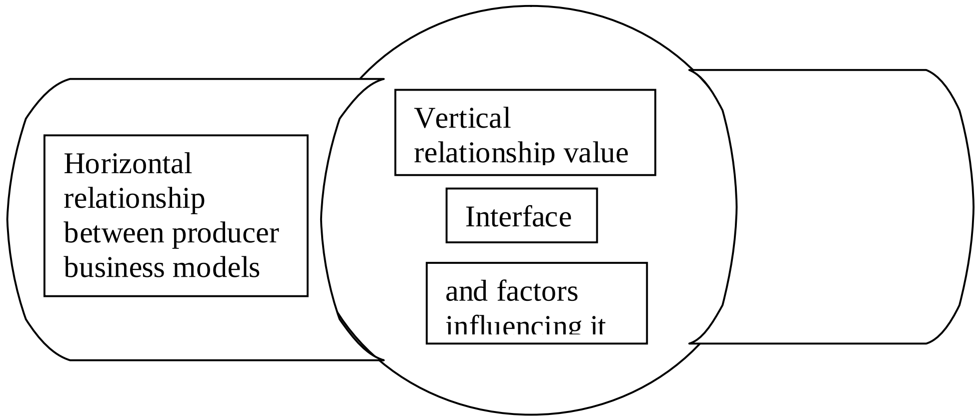

Fig 3

The competitiveness of value chains depends to an important extent on the development of business models that link small producers to the global value chain. In an increasing number of countries private firms play the role of extension service and marketing organization and farmers accept to pay for their services, or get them for free as part of an outgrowing scheme.

The Influence of Production Standards

Western retailers and multinational companies (MNCs) have defined standards for the production and processing of food and other products. For the food sector there are examples such as British Retail Consortium (BRC), Global-GAP, SQF (Safe Quality Food). Trienekens and Zuurbier (2008) down home National Food and Drug Agency and Control (NAFDAC). The major aims of private production standards are

1. To improve the quality of production and enhance consistency of production of suppliers
2. To enhance control over production processes of supply chain partners
3. To simplify the auditing process through certification for standards requested by multiple customers
4. To support consumer and societal demands for safe, high-quality and socially responsible produced products
5. To provide concise information to assist with a due diligence defense in case of (food) incidents Vellema S. and Boselie D.(2003).

These standards are now applied by MNCs and importers globally to coordinate supply chain activities and control quality, safety and social responsible process attributes. Retailers and industries increasingly demand for certification of production processes and producer organizations and processing companies in developing countries. From an industry perspective, due to the high costs of certification and further differentiation of standards by (Western) retailers and MNCs in recent years, also private standards tend to strengthen relationships in food chains.

Value Chain Governance

Governance concerns not just the power to control what is happening in a value chain, but also the rules that determine how the game is played. These rules tend to take the form of regulation, the rules of the game. Governance is broader than just the government; it deals with cooperation between all the stakeholders Altenburg, (Ibid). Who is leading in a certain value chain? Are these chains consumer- or producer-driven? Is it important to distinguish activities of the MNCs, local companies, governmental organizations and Non Governmental Organization (NGOs) in the value chain? Is the chain vertically integrated, or cut up in different independent segments? A concept related to governance of the value chain is the level of integration of the chain. For example, traditionally production in the water and sanitation sector has typically been an example of vertically integrated monopoly. One utility takes care of the drinking water supply from the source to the tap. Recently we have seen that for many utilities the technological progress, unbundling and competition have led to a separation of different activities along the value chain. For example, in the electricity sector for power generation, wholesale distribution and retail distribution can be the responsibility of one, or of different companies. A Global Value Chains (GVC) may run into market access problems if a receiving country introduces stricter health and environmental conditions. This may limit its exports, or the value chain to overcome these bottlenecks through upgrading. In the same way a local chain may be linked to a Global Value Chains (GVC) and benefit from it, or it may be isolated and operate locally only.

Constraints to Value Chain Development

The development of global value chains may be hindered by certain barriers. The barriers are listed and the potential negative effects are enumerated. Value chain upgrading often implies removing the constraints.

Barriers	Effect
1. Quality standards in developed countries like the EU limit access to these markets	1. Satisfying these requirements makes export more expensive
2. No skilled worker available locally	2. Low level of technology and no innovation in the chain
3. No access to credit and other resources	3. No possibility to finance the necessary investments
4. Too much local regulation or no appropriate governance structure	4.Too much paperwork is necessary, increasing the cost of production
5. Lack of infrastructure	5. High cost of transportation

The cost of production in a global value chain depends on a number of factors, including the organizational structure chosen. Hypotheses concerning the current problems in the case of agricultural value chains that can be formulated: — Inputs are too expensive or not available or of the wrong type

1. Extension services are too far away from the farmers or not adapted to their needs and possibilities
2. There is a lack of intermediary organizations
3. These organizations hinder the development of export
4. Private operators can play a role in providing inputs and extension services and can organize the marketing successfully.

Conclusion

Value chains include different numbers and types of triangle actors which can be found in under developed, developing and developed countries in Nigeria. A number of development plans have been drawn since independence with a view to optimize the use of the abundant human capital and material resources for the benefit of the society. The import substitution, strategy, the balance development strategy, the structural adjustment program, the national economic empowerment and development strategy (NEEDS) adopted, resulted in improved outcomes in different areas. Besides the performance of the economy was also inhibit by deficit in infrastructure and human skills, government recurrent expenditure, quality standards in developing countries access to credit and too much local regulation to mention but a few. The factors that determine the cost of production in global value chain are also identified. It is to be noted that a local chain may be liked to a global value chains. Cocoa produced in Nigeria can be used for the manufacture of beverages. Another typical example is the rubber latex which is tapped in Nigeria for the manufacture of leather shoes, bags and boxes could be exported and these items imported back to Nigeria in a more superior form.

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