

Value chain governance Dinner meeting report



Colophon

This document reports on a dinner meeting held during the process titled 'Value chain governance' which was carried out within the framework of the Development Policy Review Network (DPRN) and organised by the Institute of Social Studies (ISS) and Wageningen University and Research Centre (WUR). With a view to stimulating informed debate and discussion of issues related to the formulation and implementation of (Dutch) development policies, DPRN creates opportunities to promote an open exchange and dialogue between scientists, policymakers, development practitioners and the business sector in the Netherlands. For more information see www.DPRN.nl and www.global-connections.nl.

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Report of the Dinner meeting on ‘Value chain governance’

Compiled by: Bert Helmsing and Sietze Vellema

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Responsible organisations: Institute of Social Studies (ISS), Wageningen University (WUR), Woord & Daad, Humanist Institute for Development Cooperation (Hivos)

Introduction

This document reports on the discussions during the dinner event held in November 2008. We believe that these discussions and the conversations with the co-applicants set clear directions for next phases of this project. In the first half of 2009, the researchers will be invited to help write evidence-based inputs. In the second half of 2009, we hope to meet all participants again for bilateral discussions. At the beginning of 2010 we aim to organise a final conference on the results of this search for coherencies and synergies between business, policy, practice and research.

Developing an evidenced-based exchange which accommodates multiple perspectives

The main reason for joining this project is a shared commitment to socio-economic development processes in the South which recognise the value of the contribution by local producers and entrepreneurs and which seek novel options for poverty reduction. By dissecting these processes, we can examine expected and unexpected, and desirable and undesirable development outcomes. We can also try to understand how the development outcomes relate to intended and unintended actor specific interventions. The exchanges we seek are evidence based, that is to say they are grounded in well-documented actual experiences and practices, as formulated by government officials and related by NGOs and companies and as reported by researchers.



confusion. In addition, the separate worlds in which we operate exacerbate misunderstandings or conflicting situations.

An important observation made during the dinner event had to do with language and what we can learn about making the ways researchers speak about and discuss their findings fit in with the way business, policy and development organisation speak and discuss matters. The complexity and multi-dimensional character of value chains may lead to

As a result, language is a vital for making the exchanges fruitful. However, there is more to language than one might initially assume. Each actor uses his/her own frameworks of understanding of concrete realities. Business actors in particular value chains are often driven by (short-term) economic opportunities, while researchers tend to seek longer-term and established patterns and trends. This 'confrontation' may reveal the limitations of science-based methodologies whose aim is to realise joint development-oriented strategies and cooperation in day-to-day implementation. NGOs and business also view things differently. NGOs tend to focus on 'their' target groups and are (or have to be) concerned about their efforts in reaching that target group and not others. Here too, emphasis was placed during the dinner event on the need to strike a balance between pull factors which are rooted in rapidly changing market demands and push factors which build on the historically grown capacities and conditions of poor producers in developing countries. Finally, public policy is primarily concerned with regulation and facilitation within the realm of the general business environment. Consequently, while public policy is interested in the enabling conditions for reducing impact, there is a considerable 'black box' of the actual processes in which public goods are used by business and NGOs in the wide range of partnerships. Therefore, discovering what workable partnership models are and how they impact poverty and endogenous development continues to be a challenge.

During the series of dialogues and discussions, we hope to be able to find ways to overcome these problems of language and conceptual frames of understanding more effectively. This is an important issue if we want to improve and speed up the collaboration between universities, NGOs and companies. In the process we have to find time and space to reflect. The bilateral dialogues will hopefully be an opportunity to address this and to support the researchers involved in their commitment to making research relevant to practice and policy. Likewise, the project objective of explicating the often implicit intervention theories in practice and policy may be a stepping stone to develop the right language by which to find opportune answers to questions about how to change social and economic realities for the better.

Finding the development focus in the value chain approach

The principal advantage of the value chain approach as an heuristic device is that it allows us to get to grips with the complexities of economic development as it focuses on the networks and arrangements that bridge the entire chain of actors involved in the production of a particular commodity or service. It also creates value chains within the context of service providers and actors that regulate the transactions between actors. This broader yet more specific conception of economic development facilitates dialogues between these different actors.

The dinner event and the preceding interviews with the co-applicants revealed a number of foci of such a dialogue. It is becoming increasingly obvious that value chain approaches do have their limitations. These limitations are in part related to the nature of social and economic relationships that surround value chains or in which value chains are embedded. Consequently, while the value chain approach enables us to undertake a more integrated approach that bridges various actors in a chain functional to production and marketing,

there are still a number of questions concerning focus when discussing poverty. For example:

- Do we need to limit ourselves to small producers and their cooperatives or business associations per se? Poverty can also be effectively reduced through estates and contract farming. If we focus on socio-economic development, working conditions of workers on estates and upgrading of contract farmers would also be a concern.
- Should we examine specific chains or rather geographical production systems and their multiple VC connections (international, national and local) and assess their capabilities for responding to particular VC challenges?
- Should we examine VCs and their immediate VC related networks and environment or are there a lot of issues to be tackled beyond immediate VC relations, such as HIV/AIDS influencing productivity of workers, HRD and skilled labour supply, gender & democratisation issues affecting inclusion/exclusion in chains, etc?
- Should we only examine the ‘major league’ of exports to supermarkets in the North or also multiple qualities and multiple channels to different kinds of consumer and industrial markets, in the knowledge that the vast majority of the producers in the South are unable to enter that major league.

The selected focus has important implications for the processes considered, the actors and stakeholders and potential synergies and complementarities. It also has implications for the evaluation of VC interventions. In this project we intend to focus on (i) issues of social inclusion within the boundaries of a vertically organised chain, and (ii) the anchoring of chain performance and governance in endogenous local development. We believe that this promises to be a fruitful line of thought which will lead to greater coherency between the distinct development efforts of different actors. The following is an explanation of how these two core areas have been discussed.

Background to the theme

1. Social inclusion, chain governance and organisational models

Social inclusion is a central issue in the on-going discussion of the development outcomes of value chains. The questions are who is able to participate in value chains and under what terms and what happens to those who leave, or fall outside, processes of economic and technical integration?

Organisational models and inclusive chains

A specific concern raised during the preparations for the dinner event and during the event itself was related to the organisation of small producers. Associative or collective action among

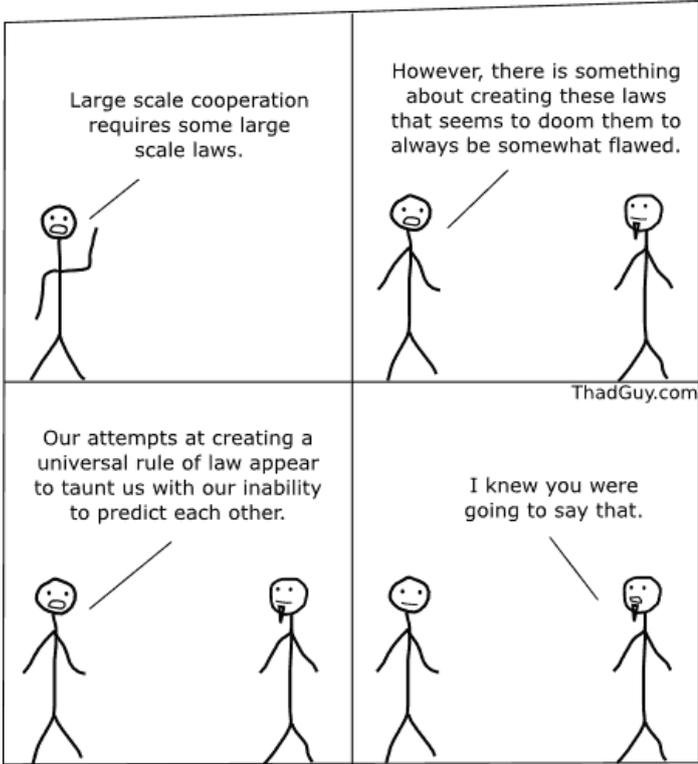


small producers may be a pre-condition for their participation in a particular chain in order to compensate for diseconomies of scale in production, transactions or logistics. A central question in this context is how small producers (can be) organise(d) themselves. These may be cooperatives, associations, jointly-owned companies and partnerships which in themselves may be single or multi-purpose organisations. What are the advantages and disadvantages of different organisational models?

A related and broader issue has to do with the question of the configuration of the chain itself in relation to small producers. For example, estate/plantation and out-grower schemes versus horizontal models and small firm-large firm alliances and organisations that are limited to one chain or broader-based geographical production systems concerned with multiple chains. The latter is receiving increased attention in relation to the ‘greening’ of agro and industrial processes.

A central issue as regards facilitating the inclusion of small producers in global and export oriented value chains concerns institutional arrangements associated with access to chains. This also concerns issues relating to the distribution of costs and benefits between (potential) actors in the chain and over time and the effectiveness of alternative models (e.g. company-specific versus sector-level arrangements, public/private/NGO partnerships; para-fiscal funds etc.).

In addition, endeavours which build on certification and standards run the risk of creating islands of excellence, accessible only to a limited group of preferred beneficiaries. Therefore, the interaction of specific value chains with a wider institutional environment may include the mechanisms for scaling up development efforts. It seems timely to understand more about how certification and standards impact the functioning of value chains as embedded configurations. The way value chains function depends greatly on conditions and measures which are usually outside the boundaries of firms and economic actors. Hence, deconstructing the interaction between a value chain functional to production and marketing and one that creates an enabling and regulating environment is a topical terrain. This seems particularly relevant to donor organisations or NGOs that need to legitimise their involvement with value chains with a clear strategy for the creation and accessibility of public/collective goods.



Context and governance of chains

From the discussions we can conclude that it is important to understand how value chains function in specific contexts and how this interaction with specific contexts affects the nature of chain governance. From the point of view of research, this implies that comparing value chains on the basis of these kinds of features may produce valuable insights into bottlenecks and solutions. For example, it may allow an understanding of the implications for introducing commercial chains into fragile livelihood contexts. It would also be important to examine workable models in various contexts and chains. For example, chains with lead firms may be able to develop these arrangements either on their own or with public/donor co-funding in a relatively short period, and be able to reach a large number of local producers. Other chains may not have lead firms and other supporting actors (NGOs) and may then adopt a broader capacity building approach in order to take a lead although fewer producers may be reached in the longer term. The question is how speed and coverage can be enhanced in different chains and contexts.

The value chain approach focuses on the actors connected in networks. The behaviour of actors in these relationships is influenced by formal and informal rules. The actors who shape these rules and the manner in which they do so are matters which depend greatly on chain governance. Behaviour in chains may not be responsible for business behaviour but may instead be shaped by opportunism, moral hazard, rent seeking, clientelism, etc. For example, opportunistic behaviour may hamper collective efforts to reduce the vulnerability of marginal farmers or casual labourers. Sometimes a distinction is made between pro-developmental institutional change processes that structure transactions to reduce costs and promote trade and investment and anti-developmental processes that structure transactions in order to create rents. This underlines the importance of deepening our understanding of how certain governance types originate in contextual patterns of behaviour. The question is what the implications are of different modes of coordinating and directing practices and behaviour in value chains, particularly when seeking greater inclusiveness. In a broader context, the question would be how the type of governance affects the direction and pace of development. From a more practical and interventionist perspective, this also raises the question of what workable models there are for the creation of trust and responsible business behaviour.

2. Value chains and endogenous local development

The previous discussion of governance already highlights the importance of connectivity among different actors in the context of localised development processes. Value chain development runs the risk of creating islands of excellence or enclaves detached from local socio-economic development processes. This observation motivates us to promote a dialogue on how value chains are articulated or disarticulated with endogenous capacities. Anchoring value chain development in local networks also implies higher levels of control by the localities, for example as regards resolving conflicts, knowledge claims, and the directions of technological change. Likewise, it may enhance problem-solving capacity tailored to specific conditions, which is functional for addressing the various performance requirements that confront chain actors.

Upgrading local producers means improving their capabilities to participate in particular chains. It can improve their participation in various ways: in transformation processes, in the kinds of products or components they produce, and in the functions they perform in relation to these. In agriculture the logistics of chains play an additional important role. The basic assumption is that increasing the quality of their participation results in higher value appropriation on their part, thereby reducing poverty. Research observes that integration into (cross-border) value chains implies higher levels of specialisation, and therefore constrains the capacity of local producers and entrepreneurs to switch to other activities or to use their capacities in other economic sectors. As a result, an unintended consequence of value chain integration may be reduced capacity to solve local problems.

Export value chains offer opportunities to escape from low local demand but an exclusive concern for export chains and the functional role of local producers in these may not lead to a full utilisation of the productive resources of a particular area. This may harm food security, vulnerability and resilience of local producers. It calls, on the one hand, for a greater focus on i) local markets and chains, ii) how to 'endogenise' external opportunities, that is to say how to increase local control over the participation in the external chains and over its local supporting environment, and iii) how to leverage local participation in one chain for development of other local economic activity.

There are, therefore, good reasons why a broader focus than endogenous local development may be desirable. The competitiveness of particular activities depends not only on the productivity of the actor concerned but also on the environment in which the actor operates. This environment may be conceptualised as several nested circles denoting the degree of control chain actors have on it. The direct business environment may be improved by improving coordination between actors and concerted actions to achieve that. However there are more distant processes that influence the performance of chains, for example HIV/AIDS or gender issues or environmental degradation, propagation of diseases, presence of infrastructure, etc. All these constitute localised externalities whereby other actors play a role in mitigating negative and propagating positive ones. By implication, local development becomes more important. Endogenous local development signifies local control. The more local actors (private sector, local state and civil society) are able to influence the pattern and pace of local development, the greater the likelihood that positive externalities are created and negative ones mitigated.

This discussion of local endogenous development invites us to think about inclusion from the broader perspective, and it opens up other potential alliances and partnerships between chain actors and other local supporting actors.

Role of the state and civil society – facilitators and enablers

In this context, the role of the state was emphasised as enabler, investor, provider and key actor in terms of governance (as regulator). In a lot of value chains, the state is not a neutral player. It has economic interests or has invested public funds in schemes installing, for example, contractual arrangements or logistical infrastructures. Accordingly, the focus of the public sector seems to have shifted from an almost exclusive focus on production (how to produce more) to a focus on production systems (the environment that enables firms to

produce better and more). In a similar way, NGOs sometimes act as facilitators or change agents in specific value chains. Hence, the policy question can be framed in a new way by asking whether inclusive and development-oriented value chains are an outcome of coherent and integrated actions of different types of social actors, or whether value chain interventions by NGOs and business are a substitute for the role of the state in economic development.

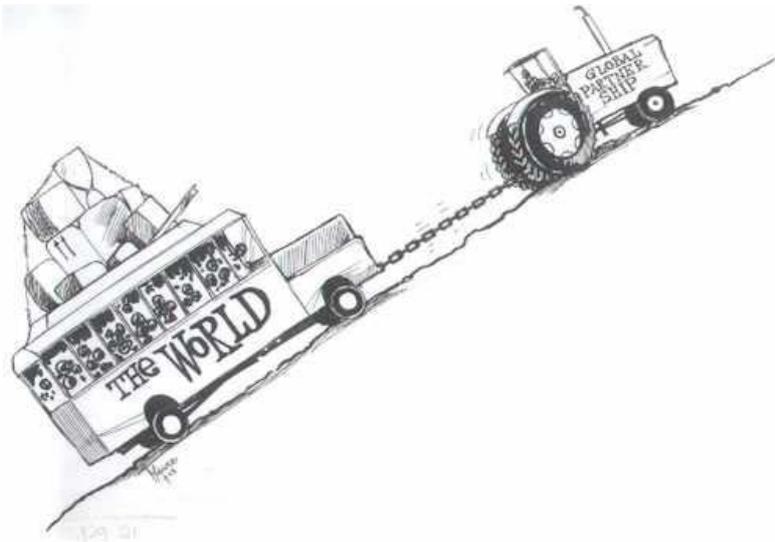
With regard to regulatory institutions that structure the interactions within chains, the question arose as to whether private voluntary institutions developed by business or by NGO and business are a substitute for state-led regulation and whether the two function like communicating vessels with regard to which a loss of public regulatory capacity can be replaced by private voluntary regulation. To put it more broadly, the question is whether strong states are needed to achieve a development impact through value chains.

Communicating vessels



Workable models for partnerships and change

The above is also related to the discussion of partnerships. The development impact of value chains is closely linked to matters which are usually *outside* the field of business management. For example, programmes for redistributing land or its tenure security, gender relations and representation in the work place, or programmes to deal with the effects of HIV/AIDS on the organisation of labour in rural communities. In addition, the conditions poor people live in may induce them to adopt a short-term perspective, for example the need to find funds for a funeral or medication and this may contradict risk sharing and joint investments in a value chain. Another interest may be related to the processes of democratisation which affect arbitrage or conflict resolution procedures in the economic field.



The above suggests that experiments and induced change processes need to take more account of the contextualised dynamics of partnerships beyond the permeable boundaries of a value chain. Put in a more straightforward manner, business may need to invest and build capacity in order to manage its relationship with actors that also operate in a social and economic context.

Although this may seem awkward from a purely business point of view, it may also yield more reliable supplier–buyer relationships. Moreover, investing in these types of relationships appears to be conditional for solving problems outside the boundaries of the business. ‘Strategic philanthropy’ is one business argument which justifies such concerns.

Realising coherency in productive and economic sectors is a balancing act which is hindered by institutional voids that obstruct the required coordination and collaboration for addressing complex economic or technological problems. Economic coordination in and outside the market plays an important role but the question is what information can be shared and with whom. How can lack of trust between different kinds of actors, operating with different kinds of logics – firms, local government and NGOs – be overcome?

Development organisations (NGOs) have also observed a difference between partnerships and value chains. The latter easily leads to a focus on working with well–organised actors and endeavours to make the whole function better or be more competitive. A focus on partnerships implies that development efforts may concentrate on improving the capacities, skills and resources of a specific group, for example producer organisations, which result in improved access to markets or services, stronger representation in strategic decision–making within the value chain, or enhanced bargaining power as regards, for example, the terms of trade in a value chain. Value chains are therefore a context in which competitiveness and new forms of voluntary regulation, such as quality standards, provide both resources and constraints for the development endeavours of farmers or workers. Some suggest that quality standards entail a superhuman effort which may be counterproductive for poor people trying to build capacities in dealing with whimsical markets or unreliable business partners. It is not automatically a chain focus following from the above but may be more about the connections, arrangements and functional roles of the various actors in a specific economic field.

Looking forward

This document is a continuation of our dialogue on socially inclusive value chains and the relationship to local endogenous development. We have established that this relationship is subject to certain tensions but this is surely the case in all relationships. We may also conclude that inclusive value chains and local endogenous development are not mutually exclusive and that there is sufficient reason to examine how resilient and socially just value chains, and the durable upgrading of local producers and entrepreneurs, support endogenous development and vice versa. Connecting different actors and their distinct analytical frameworks and intervention theories may be one of the stepping stones towards achieving this kind of coherency. We hope that this letter leads to further dialogue and discussion.

The ultimate aim of this process is to encourage creativity in joint strategising. Along the way we hope to develop a methodology for this, to stimulate out–of–the–box thinking, an evidence–based discussion which compares value chains, regions and sectors, and the use of multiple methods for unravelling the processes which lead to intended and unintended value chain development outcomes.

The meeting stressed that it is important that these exchanges do not exclude actors from the South. This is a point which everyone readily accepts. Their inclusion allows us to debate both sides of the story and add important additional perspectives on central questions. Unfortunately, the limitations of DPRN funding did not permit the inclusion of southern partners. We hope, however, to ensure their inclusion in dialogues and for that we need your assistance. It is therefore important that all participants contribute their ideas, identify southern partners and make their participation possible!

Last but not least we encourage all of you to visit the website of this project (<http://value-chains.global-connections.nl/>) which now contains almost 70 publications, posted by associated researchers, which relate to various aspects of value chain development and which cover case studies in more than 20 countries. The website is also the place to post comments, for example on this document, and any other contributions to the dialogue.

Appendix 1 – List of participants

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Appendix 2 – Programme

- Overview
- Personal column by Dave Boselie, Concept Fruit B.V.
- *Starter*
- Value Chain interventions in development cooperation (Sietze Vellema)
- Personal column by Dicky Veldhuisen, Woord en Daad
- *Main course*
- Research on Value chains and Development (Bert Helmsing)
- *Dessert and coffee*
- Dialogue on what? Raising issues for discussion (Bert Helmsing)
- Results of table discussion
- What's next? Overview of planning next stages (Sietze Vellema)

