

# Value chains

## *Value chain governance and endogenous growth: how can NGOs, firms and governments achieve social inclusion and poverty reduction?*

### 🌐 The value chain approach

International trade is increasingly being undertaken through organised global value chains in which quality competition plays a central role. Quality competition is achieved by complex standards and the introduction of new technologies. Value chain governance refers to the manner in which the various actors operating in these chains (firms, governments and NGOs) coordinate their actions and strategies and shape, implement and enforce standards.

The Institute of Social Studies (ISS) and Wageningen University (WUR) coordinated a DPRN process to investigate what happens when global value chains touch ground in particular development contexts. They also explored the conditions that make global value chains more inclusive to vulnerable groups, such as small producers and workers in the South.

In the realm of development policy and practice, global value chains are considered key entry points for initiatives aimed at poverty alleviation, entrepreneurship and decent labour conditions. In scientific research, the value

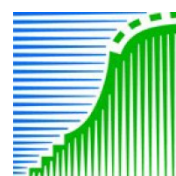


Source: Wikimedia.org

### Process organisation

The 'Value chain governance and endogenous growth' process was carried out within the framework of the Development Policy Review Network (DPRN) by:

- The Institute of Social Studies (ISS)
- Wageningen University and Research Centre (WUR)
- Woord en Daad
- ICCO
- Ministry of Agriculture, Nature and Food Quality
- Concept Fruit BV
- Hivos



chain concept primarily serves as an exploratory device that allows us to get to grips with the complexities of economic development. As such, it focuses on the networks and arrangements that bridge the entire chain of actors directly and indirectly involved in the production of a particular commodity or service.

While there is a growing recognition in policy and practice that governance of value chains plays a crucial role in so-called endogenous economic growth (economic growth that is generated from within a business system as a direct result of internal processes), there is as yet little understanding of the relationships between value chain governance and development interventions. Few – if any – actors have a full understanding of the entire chain and its dynamics. Often they know only their immediate linkages in complex multi-local networks.

Efforts to promote the integration of small-holder farmers, workers and small and medium enterprises into value chains may be insufficient for achieving development goals. That is because much depends on the precise articulation with historically grown networks and institutions within a certain area. The discussion about the link between value chains and endogenous economic growth is therefore crucial. It can inform interventions aimed at connecting locally embedded networks and public organisations to the logics of vertically coordinated value chains. For a full understanding, actors other than firms and producers, such as chain promoters and regulators, should be included in the analysis of the governance and economics of value chains.

Donor governments tend to focus their economic development policies on private sector development whereby they usually target either macro-business environment issues or micro-level enterprise conditions (through business development services and finance). However, the sustainability of business development services depends on demand and supply conditions that are specific to different sectors and chains. Therefore, joint public and private strategies and interventions at the meso level of value chain development are needed. This will connect the macro and micro issues and enhance overall effectiveness of the strategies and interventions.



Source: <http://repub.eur.nl/res/aut/21735>.

## Contours of a shared knowledge agenda

The so-called ‘bilateral dialogues’ between researchers and other stakeholders that were part of this DPRN process, enabled the combination of a transdisciplinary analytical approach with the experiences and insights derived from policy and practice. This made it possible to reveal the diversity of mechanisms that make value chains work for development. The research contributions to the dialogues were not intended to be analyses of an empirical dataset in order to draw theory-informed conclusions. Instead, researchers deliberately engaged in an interdisciplinary debate based on theoretical variety in order to reveal what may be concealed if a single-theory approach is taken.

These discussions showed that the combination of different conceptual frameworks helps to unpack the composite nature of value chains and to unravel the interaction between value chains and development contexts. This is a stepping stone for future iterative processes, which may be more productive when participants do not adopt a single definition of what a value chain is, how a value chain performs or how a value chain is supposed to work for development. The dialogues identified four domains that can serve as the focus for such an iterative learning and research process.

First of all, the terms of inclusion in the value chain and the conditions for development depend on how the process of touching down value chains is embedded in a specific territorially and state-bounded business system. Hence, to understand the development impacts of value chain-based interventions it seems essential to take account of the variation in context and matters outside business management.

Secondly, besides the 'touching down' process, the process of inclusion and exclusion in itself affects potential development impacts of value chain-based interventions. The ways in which workers are included in the value chain form an uncharted terrain that requires more attention. Associative or collective action among small producers is often a pre-condition for their participation in particular chains. In this way they can compensate for diseconomies of scale in production, transactions and logistics. Further conceptualisation of the institutional dimensions of inclusion processes is a task for interdisciplinary research teams.

Thirdly, the inclusion of, for example, large numbers of smallholder farmers, workers or processing enterprises, shifts attention to leveraging processes. This challenges project-based interventions working with identifiable target groups in bounded communities. It poses the questions of where and at what level intervention can achieve scale and what kinds of intervention strategies are capable of managing the interdependencies and combinations of actors. It takes a change in mind-set to make intended outcomes dependent on actions orchestrated or coordinated with others. Finding levers for up-scaling therefore requires a teaming up with others and experimenting with intervention strategies that go beyond the span of control of individual actors.

The final domain identified in the dialogues relates to standard setting and upgrading.

### Accommodating multiple perspectives?

As a tangible output of this DPRN process, Routledge is going to publish a book on chain governance edited by the process organisers Bert Helmsing (ISS) and Sietze Vellema (WUR). In the synthesis chapter of the book they argue that the development impacts of inclusion of small producers, local firms and workers in global value chains depend on two conditions: (i) the degree of alignment of value chain logics with the capacities of actors and institutions embedded in territorial business systems; and (ii) the terms of participation.

The researchers acknowledge the importance of searching for an analytical common ground which combines insights from multiple disciplines such as economics, geography and management studies. Only on the basis of such an interdisciplinary approach is it possible to develop integrative frameworks to analyse inclusive and endogenous development of value chains and to understand the terms of participation in the process of inclusion. To achieve such understanding we need to uncover the often hidden mechanisms that configure the terms of participation and modes of governance in a value chain. Examples include the practices of intermediary recruiters of temporary workers, or the negotiations on standard setting at levels out of reach of associated producers. Moreover, inclusion in a value chain is an evolving process, not a static outcome. The dynamics of inclusion are related to forms of coordination and association within the boundaries of specific value chains. Likewise, the forms of cooperation or rule setting within a certain area, or the capacity of governmental organisations to regulate the chain, or to define the terms of contractual arrangements, affect the nature of the process of inclusion.

The authors conclude that the global value chain approach is not without limitations. They stress the importance of including in the analysis the perspectives of both chain actors and non-chain actors, in particular the state and organised forms of concerted action and association. The effectiveness and viability of development-oriented intervention strategies and partnerships, anchored in value chain dynamics, will benefit from an ability to accommodate multiple perspectives.

Mainstream thinking on value chains and small producers largely concentrates on the question of upgrading as a way to improve income and employment or poverty reduction. Upgrading local producers means improving their capabilities for participating in particular value chains, and this underlines the need for an intervention focus within the boundaries of these value chains. This improvement can take many forms, for example in the products they generate or in the related functions they perform. The discussion above suggests that this may be too narrow an entry point and points to other complementary processes shaping development impacts of value chain-based interventions.

### Follow-up

The knowledge agenda generated during the dialogues, informs research and discussion between universities, firms and NGOs within the Partnerships Resource Center (PRC) initiated at Erasmus University. Ongoing exchanges between the Institute of Social Studies, Erasmus University Rotterdam and Wageningen University with HIVOS, Woord and Daad, ICCO and other development organisations provide a foundation for joint research programmes currently developed by the ISS. The insights generated are also part of ongoing dialogues with knowledge networks in the South, for example during a recent workshop in Nairobi where practitioners from the private non-governmental and public sector in East Africa assembled to elaborate on the issue of up-scaling sustainability initiatives in value chains.

### Process output

The 'Value chain governance and endogenous growth' process included a writeshop, several meetings to discuss the set up and outcomes of the research with other stakeholders, and the publication of 13 research papers (to be published as a book in May 2011). This resulted in the following publications:

- 'Value chain governance dinner meeting report'.
- Book outline: An overview of the chapters in 'Value chains, Inclusion and Endogenous Development: Contrasting Theories and Realities' (Routledge, 2011).
- Synthesis: 'Governance, Inclusion and Embedding: Raising the Issues' (editorial chapter of the book).
- Knowledge agenda: 'Value chains governance and inclusive endogenous development. Towards a knowledge agenda'.
- DPRN progress report (first phase of the process).
- DPRN process report.

All publications are available on the website:

<http://value-chains.global-connections.nl>

Development Policy  Review Network

This infosheet was made by DPRN. With a view to stimulating informed debate and discussion of issues related to the formulation and implementation of development policies, DPRN created opportunities to promote an open exchange and dialogue between scientists, policymakers, development practitioners and the business sector in the Netherlands and Flanders from 2003–2011.