



January 2010

Sietze Vellema, Wageningen University and Research Centre

Value Chains for Pro-Poor Development

Purpose of the document

This document describes the rationale, scope and approach of the sub-programme 'Value Chains for Pro-poor Development, of the DGIS-WUR partnership *Globalisation and Sustainable Development*.*

Objectives and results

The Value Chain for Pro-poor Development programme aims to make an important contribution towards the following goal:

Market economic development programmes contribute more-effectively to poverty alleviation

Towards the end the Programme is expected to deliver the following purpose:

Policymakers and practitioners integrate validated sets of interventions and tools related to agro-food value chains in their policies, programmes and projects aimed at pro-poor economic growth and development.

This implies that programme goes beyond merely concluding and describing a number of tested policy and field-level interventions. Close co-operation with and between key policy-makers and field practitioners in terms of design, planning, practical implementation, reflection and learning will be fully incorporated in the programme implementation approach. As such the familiarisation, adoption and application of new insights and improved approaches will be an integral part of the programme. Pilot studies cum action researches are the central activities implemented in the programme.

Rationale: value chains and pro-poor development

The overall context for pro-poor development is shaped largely by a number of trends and developments at the macro-economic level, such as globalisation and concentration in food provision, liberalisation of markets for agricultural products, deregulation of public services, legislation and regulation on food safety and quality, and international competition. International agreements, inter-governmental negotiations and global market forces are the major drivers of developments and changes at this level and, accordingly, they shape conditions for actions and interventions in value chains. Obviously, value chains are part of this dynamic market and regulatory environment in which the chain partners together constitute an important institutional arena for making market economic development instrumental in poverty alleviation.

Linking small producers to markets or integrating them into domestic or international value chains is widely recognized as a valuable development trajectory. Also in the Netherlands, many development organizations, ministries, non-governmental organizations, private companies and research institutes are engaged in this endeavour. A specific interest of the programme is to cooperate with Producers' Organisations (POs) in coping with these developments and in building capacity among their membership to deal with the changing economic realities. These combined efforts create an

* DGIS: Netherlands Directorate-General for International Cooperation.
WUR: Wageningen University and Research Center, the Netherlands.

interesting pallet of activities that compose the domain addressed by the programme Value Chains for Pro-poor Development. This programme is motivated by, at the policy level, the wish to enhance coherency between trade and development policy and, at the level of implementation and action, the shared interest in learning how to configure chains for pro-poor development. The challenge addressed in this document is how to embed these diverse activities into a coherent and programmatic framework for action, experimentation and learning.

An important starting point of the programme is that pro-poor development is not an automatic outcome of value chain development or market access. And, in line with recent poverty studies and policies, pro-poor development includes more dimensions than generating higher incomes alone. Subsequently, the programme builds on the five interactive core-dimensions identified by OECD:

- 1) Economic capabilities
 - Ability to earn an income, to consume, to have assets, and to secure access to productive financial and physical resources.
- 2) Protective capabilities
 - Ability to withstand economic and external shocks, to cope with insecurity and vulnerability and to respond to seasonal variations.
- 3) Political capabilities
 - Ability to have a voice and some influence over public policies and political priorities.
- 4) Socio-cultural capabilities
 - Ability to participate as a valued member of a community and to put an end to geographic and social isolation.
- 5) Human capabilities
 - Ability to ensure well-being, i.e. health, education, nutrition, clean water and shelter, and to improve livelihoods.

Against this background of changing opportunities and new market-economic challenges producers' organisations, policy makers, development practitioners and the corporate sector are seeking effective strategies and approaches to plan and pursue value chain interventions that (a) contribute towards overall chain competitiveness and (b) most importantly, lead to more equitable value distribution and poverty reduction.

The value chain concept primarily originated as a research tool to understand how international trade works and how globalisation connects different economic realms. The original focus was strongly on processes of integration and regulation in the economic domain. Another focus considered chains as vehicles to exploit competitive advantages and to encourage innovation by linking different players. Others underlined the function of supply chain management in reducing transaction costs or increasing efficiencies. More critical work on, for example, commodity chains emphasised asymmetries in power relations and in the impacts of concentration of control and of globalisation on the distribution of costs and benefits, internationally and locally. Recent scholarly work uses the value chain approach to determine the dynamics of value distribution and to identify levers for enabling equity and sustainability.

Hence, the value chain concept resulted in strong frameworks for analysis. In these frameworks, the translation into intervention practices, particularly in the perspective of pro-poor development, seems to be lagging behind. In this respect, most experience has been gained in forming value chains as an instrument to increase agro-industry growth and provide market access, which is assumed to trickle down to poor groups. The latter, however, may require more targeted interventions which address both the governance and institutional arrangements in value chains, as well as the livelihood strategies and forms of organisation that exist in rural areas. Moreover, the complexity and scale of pro-poor development also underlines the need for finding leverage points for intervention, linking localised value chain projects to the wider institutional and policy environment. Although pro-poor development receives much attention in international agenda setting, complementary and coherent intervention frameworks at meso and micro-level are not yet fully in place. For value chain approaches, these levels in particular are crucial for creating the right conditions for pro-poor development.

At the application level it has been observed that various partners utilize the value chain approach in different areas of intervention. Governmental development policies generally target the promotion of enabling environments (both at international and at national levels), delivery of support services as well as support to better inter-firm cooperation. Development organisations and the private sector appear to focus particularly on inter-firm cooperation and firm-level upgrading. However, in doing so, their orientation and interests can be quite different. Where, on the whole, the interventions of these different partners are fairly complementary, their effectiveness may benefit from better coordination between them.

The effectiveness of the prevailing approaches may be enhanced as well by building additional capacity for their understanding and implementation among policy makers and field practitioners. Value chain governance issues, the fit between livelihood strategies and the effects of certain chain interventions are not always taken into consideration in the planning and management of policies, programmes and projects. Among development practitioners, and possibly among policy makers as well, there appears to be a need to develop 'best practices' that combine the need for working with, and for, specific target groups, participatory development approaches and expertise on commercial processes.

Increasingly, strengthening the performance of producers' organisations is being recognised as an important strategy towards pro-poor development. Experiences so far, have resulted in a number of feasible strategies and practical recommendations on how to work with, and for, producer organisations. Whilst these lessons learned are very valid, there appears to be a need still, among policy makers and development practitioners, to gain more insights and expertise in the support of producer organisations in a pro-poor development framework. This will require both experimentation and building of capacity.

Context

In the last decades a number of important trends and developments in the market-economic and regulatory environment have significantly altered the potentials for development for small scale farmers and small and medium enterprises in the agri-food sector in the South.

Institutional reforms in the era of deregulation

Firstly, the combination of structural adjustment policies in the 1990's and an ongoing process of global market liberalization, resulted in developing and emerging economies in multiple forms of privatization, the diminishing importance of international commodity agreements and the suppression of protective policies (tariffs and non-tariffs), price controls, financial aid and subsidies. The withdrawal of the state and parastatal structures led to the virtual collapse of certain marketing services such as quality control, sorting and grading, warehousing, but also price monitoring, and contract negotiations, leading to increased transaction costs for individual producers in many developing economies. Consequently, agricultural producers are confronted more directly with international competition and have to operate in a more competitive and unstable environment. In addition, recent developments in international and domestic markets for food products have introduced a growing number of regulations and requirements with respect to food safety and quality. So, not only is competition becoming stronger, also the agri-food market has become more specific and diversified in terms of quality and safety demands. The combination of privatisation in the economic realm and decentralisation of various services confronts POs with the question how to ensure access to services and institutional support for their members. Increasingly, POs incorporate up economic functions to enhance the capacity of associated farmers to manoeuvre in this field of competition and market opportunities.

The changing playing field

Secondly, these institutional reforms also resulted in a different playing field in the agro-food sector. The mode of governance, in terms of setting and maintaining basic rules (e.g. property rights, free competition, etc.) and correcting market failures (externalities, public goods), appears to be a crucial element for grasping the opportunities for market-economic growth and pro-poor development. It is in

the interest of all stakeholders, including small-scale farmers and small and medium enterprises in the agri-business sector, to find governance structures that are capable of adapting to the changed national and international conditions. The rise of voluntary regulation system, in contrast to mandatory systems, altered the institutional arrangements between actors in value chains. However, also the private sector still sees essential role for the public sector, for example in creating favourable conditions for agricultural sector development, for promoting sustainable management of natural resources, for fostering public-private cooperation and for enabling inclusion of smallholders and small enterprises. Likewise, the bargaining mechanisms available to POs and other stakeholders, previously strongly linked to public interference, will have a varying nature.

The globalisation of food provision

Thirdly, globalisation of food provision and the rise of retail and supermarkets in the South created new opportunities and threats for farmers in the South. The appearance of new niches in exports from developing countries of fresh products, such as sea food, vegetables, herbs, ornamental plants and cut flowers, has led to the incorporation of smallholder into larger corporate structures as well as to novel mechanisms for remunerating quality or origin. In some countries the export production of these new products has had a positive impact in terms of employment and income generation, despite new technical and institutional challenges to producers in the South. The demand for some of the more traditional commodities – for example, natural rubber and palm oil – has also shown a significant increase, thereby creating renewed opportunities for producers in the South. For other traditional commodities the declining terms of trade remain a main feature of commodity production and trade and small-scale suppliers and their organisations are challenged to seek ways to add value to their products or redistribute some of the value through different chain arrangements. The strategic outlooks of POs and their response to globalisation processes will differ for specific product groups, as will the nature of the relationships between POs and private or public actors.

Institutional arrangements in agribusiness and agricultural trade

Finally, the internationalisation also poses new challenges to agribusiness and food companies. Companies are sourcing their agricultural materials and food products from a wide range of suppliers, but in the context of developing countries this often implies smallholder producers. This entails finding workable organisational models and management styles in rural economies. In particular the improvement process resulting from the demand for sustainable and fair food products involves working with skilled and competent producers in the chain networks as well as providing access to research and innovation for these producers and/or their organisations. Also, the nature of negotiations in the commercial domain is affected by the integration of (associated) smallholder producers. Moreover, the growing demand for sustainability and social justice, also labelled as Corporate Social Responsibility, requires companies to implement measures of control and monitoring, which involve interactions beyond the straightforward commercial relationship between buyer and supplier. Nevertheless, the capacity to be and stay competitive remains a basic requirement for encouraging economic development, also in the case of pro-poor development.

Scope

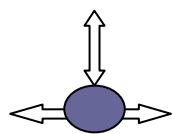
The above sketches the context for (re)configuring value chains for pro-poor development, the general goal of this programme. This focus brings us beyond interventions and strategies meant to link smallholders to markets; an approach largely adopted by many development agencies and governments. It asks how existing linkages of producers with markets or, more specifically, how the integration of smallholder producers into value chains impact on poverty alleviation. And, it searches for intervention strategies effectively supporting the realisation of ambitious pro-poor development goals under privatized, deregulated and globalised market conditions. Accordingly, the programme focuses: (1) on chain configurations, in particular the various processes of coordination, negotiation and regulation at the interface between vertical coordination of commercial transactions and horizontal organisation of local actors; and (2) on the interaction of these socially embedded chain configurations with the enabling institutional environment. This focus of the programme is motivated by the observed

need to work on strategic levers rather than to add strongly localised project interventions to the existing pallet of chain projects.

The programme aims to work with practitioners and policymakers on the integration of validated interventions in and around agro-based value chains into practice and strategy for pro-poor development. The pilot studies implemented in the programme are guided by the desire to address complex problems such as variability of income and/or employment, instability and vulnerability in market place / value chain, bottom-up influence over chain strategy and economic policy, and geographic and social exclusion or isolation. Addressing these types of problems by novel organisational structures involves more than linking farmers to value chains; it implies a contextualised understanding of the occurrence and dimensions of poverty and acknowledging the impact of commodity characteristics for designing pro-poor interventions.

The activities under the programme are directed towards developing, testing and researching such a set of instruments. Based on the analysis summarized above, the programme argues that two interfaces are particularly relevant for pro-poor interventions. The first interface relates (horizontal) organisational strengthening with (vertical) processes of coordination and integration in chains. The second interface accommodates functional relationships between micro-level hands-on action and meso-level strategic policy development, institutionalised knowledge generation and (technological) innovation.

Interface 1: Horizontal strengthening and vertical integration

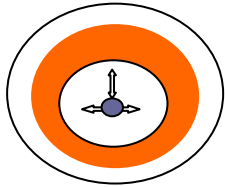


One area of intervention proposed is located in the interface between the organisational and social processes in rural areas ('horizontal processes') and the institutional processes in domestic or international chains ('vertical processes').

The horizontal dimension explains the interest in the different modes of association by primary producers. In many parts of the world, food products and agricultural materials are supplied by diverse and scattered small and medium producers. Although trends towards concentration and intensification in agricultural trade and food provision can be observed, a major challenge for development-oriented value chain programmes still is to alleviate poverty in rural areas by offering small and medium producers a level playing field to earn decent incomes. Likewise, private companies in the food sector share a genuine concern in how to sustain the sourcing of agricultural materials from small and medium producers. Therefore, private companies increasingly try to find organisational models to include producers in long-term strategies that link competition with sustainable development. In both ways, building on existing institutional capacities and social capital seems to be crucial for the inclusion of producers in development processes in the context of markets and chains.

The vertical dimension underlines the importance of modes of coordination and forms of governance for the functioning of value chains and the ways markets are organised. Coordination serves to link dispersed capacities and competencies at the levels of production, processing and trading in order to construct robust institutional frameworks that are responsive to external demands, such as food safety or sustainability. Governance patterns behaviour and social relationship within chains and markets. From the perspective of sustainable and viable rural development it is important to understand the mechanisms of distribution of value, sharing risks and creating mutual commitment. Hence, pro-poor development will not be realised by focusing primarily on efficiency gains, for example by reducing transaction costs. The challenge for programme is to design and evaluate the effectiveness of governance and coordination within specific chain configurations for sustainable development. Therefore, more-technical and operational matters, such as quality management or efficient processing, will be linked to mechanisms that pattern behaviour and relationships in value chains.

Interface 2: Micro-meso level interaction



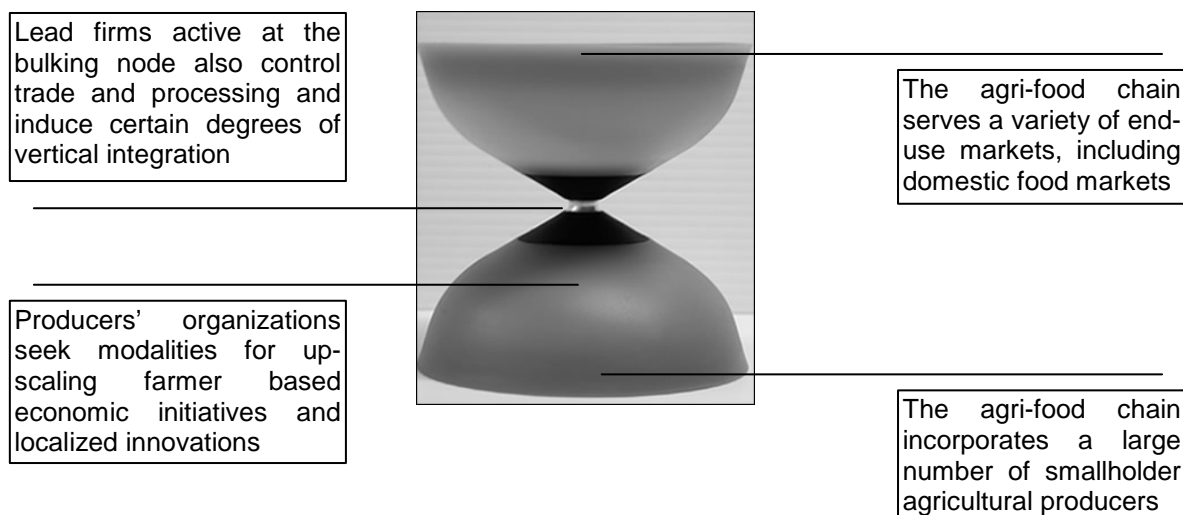
The interface between the horizontal and vertical processes, as described above, is complementary to the interface between micro and meso-level processes. The latter is considered crucial when striving for long-term and sustainable system changes. Eventually, pro-poor development endeavours will benefit from, and contribute to, viable rural economies. This introduces, however, the issues of scale, complexity and leverage. It seems to be impossible to rely solely on an approach that targets individual producers or small groups of producers only. The challenge is to find institutional frameworks that allow governments, private companies and development organisations to use their resources effectively by intervening at appropriate leverage points, while keeping in mind that pro-poor development may require regime changes.

The danger of specifically-framed value chain projects is that only a limited number of beneficiaries are reached, for example the preferred suppliers or well-organised co-operatives. As a result, also the systemic impact, i.e. the impact on rules, relationships and institutions, is limited in nature. To counter this danger, the programme will take an active interest in the up-scaling of pilot activities and experiments, as well as in the institutionalisation of enabling mechanisms that link the policy environment and innovation networks with economic activities in the context of specific value chains.

Focus of the programme

The focus of the programme is on agri-food chains of non-perishable products, wherein chain linkages are obvious due to the need to aggregate volumes and to coordinate and regulate productive activities and transactions. The agri-food chains selected for the programme involve economies of scale. Firms active at the bulking node are also a central unit in trading and processing, which entails a certain degree of vertical integration. The functioning of the agri-food chains have been affected both by the dismantling of state-led enterprises due to privatisation and deregulation policies and by the introduction of new organising principles that try to install alternative for monopolies or oligopolies. Therefore, the action researches inform decision-making about the possible roles of public agencies in processes or economic (re)ordering from the perspective of achieving public goals, such as poverty alleviation.

The selected diablo-shaped agri-food chains represent the following features:



The selection of products links the agri-food chains to food provision in developing societies, so that the poverty dimensions relate both to agricultural producers and food buyers. The selected agricultural commodities are largely embedded in markets for undifferentiated products, wherein some movements towards quality-driven transactions take place. An important consideration is that the livelihoods of many low-income, smallholder producers are dependent on the dynamics in these types of commodity systems, wherein price competition and reliable volumes are important drivers.

Pilot studies implemented by the programme

The programme Value Chains for Pro-poor Development implements pilot studies cum action researches embedded in on-going multi-stakeholder and chain-based change processes. Through the involvement of the AgriProfocus network and Agriterra as well as the Royal Netherlands embassies, the programme has a strong engagement with strategies of upstream actors. The question leading action research is: what kind of organisational structures, mechanisms, or arrangements make existing agri-food chains work better for pro-poor development?

The pilot studies cum action researches are problem oriented and combine (i) addressing localized problems with (ii) answering 'high level' questions of strategic importance beyond the specific case at hand. This type of action research reveals the aspects related to up scaling or replicating such an intervention strategy and provides a model for future development in other circumstances. Essential in the design and implementation of action research is the selection of research questions in close interaction with the (multiple) users of the research results. Action research also implies a certain level of flexibility for tailoring research process and output to the dynamics of the users' group. In this set up, the programme aims to build innovative capacity in cooperation with chain actors and producers' organisations. In addition, the programme builds research capacity within the countries themselves through involving local researches in the actual implementation.

The table below presents coherency and synergy in the sub-programme's portfolio of pilot studies.

	A	B	C	D	E	F
Title	Stability and competitiveness in the Ugandan sunflower sector	Institutional measures reducing transaction risks in the Ethiopian sesame export chain	The tandem of land reform and socially equitable rice chain configurations	Farmer-led cluster development for socially embedded domestic food chains	Farmer-initiated trade hubs in the Tahoua onion belt	Remuneration and representation of women in shea nut
Objective	Supporting the Uganda Oilseed Subsector Platform in its strategy to reduce uncertainty and instability faced by sunflower producers in output and input markets.	Forming a code of conduct that enables the construction of an effective interface between the vertical column and collective action in horizontal organisations	Developing pro-poor organisational models supporting land reform communities in the Zambézia region in building equitable linkages with domestic and regional rice chains	Building strategic connectivity and foresight capacity in farmers' led and socially just agribusiness clusters in Rwanda's agri-food filières	Encouraging the establishment of transparent price setting mechanisms and discovering region-based growth models reducing vulnerabilities in onion trade	Conceptualising workable modalities for empowering women in the various economic realms of shea nut and in policy and supporting networks of the sub-sector
Location	Uganda	Ethiopia	Mozambique	Rwanda	Niger	Burkina Faso
Commodity	Sunflower	Sesame	Rice	Cassava and others	Onion	Shea nut (<i>karité</i>)
Focus for pro-poor value chain development	Support collective, meso-level strategies of a sub-sector platform assembling private and public actors, up-scaling and multiplying chain-based development interventions in the fields of market coordination and technological innovation for sunflower producers	Reduce transaction risks in the Ethiopian sesame export chain by implementing a code of conduct and other institutional measures that create enabling conditions for a remunerative and committed participation of smallholder producers based on transparent relationships	Design models for equitable rural development by linking social and economic arrangements in social organizations in land reform areas. to governance mechanisms in rice chains	Build strategic management capacity in producers' organisation to combine pro-poor interventions in a farmers-led agribusiness clusters with robust economic partnerships and flexible connectivity to innovation networks.	Test trade-hubs as part of collective marketing efforts initiated by specialised farmers and embed these in pro-active networks of a specialised onion cluster with traders and processing and enabling institutes.	Encourage women network combining representation in agenda-setting and strategic support for the shea nut sector with enhanced negotiation capacities in different value chains (domestic food chains, specialised cosmetic chains, and bulking chain for food industries)