The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

Liz Cooper
May 2013

JWI Working Paper
No. 2013/01
The effects of non-firm actors' interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies
Liz Cooper
JWI Working Paper 2013/01
First published by the Just World Institute in May 2013
© Just World Institute 2013

The views expressed in the Just World Institute Working Paper Series are those of the author(s) and do not necessarily reflect those of the University of Edinburgh. JWI Working Papers have not undergone formal review and approval, and are meant to elicit feedback and encourage debate. Copyright belongs to the author(s). Papers may be downloaded for personal use only.

Just World Institute, University of Edinburgh, Chrystal Macmillan Building, 15A George Square, Edinburgh EH8 9LD
Web: http://www.sps.ed.ac.uk/jwi
Acknowledgements

Thanks to all who provided information and advice as this paper took shape, and in particular to Jörg Wiegratz, for his comments and guidance.
Abstract

Reflecting a wider twenty-first century trend in international development of collaborating with the private sector to achieve poverty reduction, NGOs and development agencies have begun to get involved in agro-commodity value chain development. Yet there is a lack of academic analysis of the effects of their involvement on chain governance. This paper identifies the roles NGOs and development agencies are playing in chain development, and analyses the effects of their interventions on chain strategy, relationships between chain actors, and power relations. These research aims are met through a broad review of recent literature, covering cases from a variety of agro-commodity sectors across Africa, Asia and Latin America. This study contributes to theoretical debates by producing a number of findings. Firstly, in many cases, NGOs and development agencies have begun to take on chain governance roles, gaining power over chains. Secondly, these new governors are often using this power to influence who participates in a chain. Thirdly, they are typically attempting to change captive governance to more relational governance, in order to empower small producers and processors. Yet corporate buyers maintain high levels of power, despite, and sometimes because of, non-firm actor interventions. Rising non-firm power, alongside sustained corporate power, suggests that collaborative co-governance between these two actors may be a possible future path. Overall, this paper concludes that the effects of NGO and development agency involvement in agro-commodity chain development on chain governance are several-fold and significant, with varying consequences for vast numbers of livelihoods. Therefore, recommendations are made for practitioners to gain greater business expertise, to use more participatory chain analysis and planning techniques, and to extend their support more to processors as well as producers. Recommendations are made for further research on chain actors’ views on non-firm interventions, and for action research on co-governance of chains.

Key words: agro-commodity, value chain, governance, NGO, development agency
# Contents

FIGURES AND TABLES .......................................................................................................................... 1
ACRONYMS ................................................................................................................................................. 1

1. INTRODUCTION .................................................................................................................................. 2

2. HOW USEFUL IS THE VALUE CHAIN GOVERNANCE LITERATURE FOR ANALYSING NON-FIRM ACTORS?

   2.1 WHAT IS VALUE CHAIN ANALYSIS? ................................................................................................. 5
   2.2 VALUE CHAIN GOVERNANCE THEORY ............................................................................................. 6
   2.3 NON-FIRM ACTORS IN VALUE CHAIN LITERATURE ........................................................................ 11
   2.4 RESEARCH METHODOLOGY ........................................................................................................... 12

3. WHY AND HOW NGOS AND DEVELOPMENT AGENCIES ARE GETTING INVOLVED IN AGRO-COMMODITY CHAIN DEVELOPMENT .................................................................................................................. 14

   3.1 WHY AGRO-COMMODITY CHAIN DEVELOPMENT: UNPACKING NGO AND DEVELOPMENT AGENCY MOTIVATIONS... 14
   3.2 APPROACHES TO VALUE CHAIN DEVELOPMENT ............................................................................ 17

4. KEY FINDINGS ON THE EFFECTS OF NON-FIRM ACTOR INTERVENTIONS ON AGRO-COMMODITY CHAIN GOVERNANCE .................................................................................................................. 20

   4.1 THE NEW GOVERNORS? NON-FIRM ACTORS GAINING POWER OVER CHAINS ................................. 20
   4.2 SELECTION OF CHAIN ACTORS: INCLUSION OR EXCLUSION? .......................................................... 24
   4.3 FROM CAPTIVE TO RELATIONAL CHAIN GOVERNANCE? ..................................................................... 26
   4.4 TOWARDS COLLABORATIVE CROSS-SECTOR CHAIN GOVERNANCE? ........................................... 30

5. CONCLUSION ....................................................................................................................................... 32

REFERENCES ............................................................................................................................................... 34
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

Figures and tables

**Figure 1:** Agro-commodity value chain. Source: adapted from UKAID (2011) .......................... 3

**Figure 2:** Value chain mapping: theory and reality. Source: Brown, Bessant and Lamming (2000), cited by Kaplinsky and Morris (2002) ................................................................. 6

**Figure 3:** Types of value chain governance. Source: Gereffi, Humphrey and Sturgeon (2005) .... 8

**Figure 4:** How non-firm actors are typically conceptualised in value chain mapping – as service providers and supporters. Source: author. ................................................................. 12

**Figure 5:** Non-firm agro-commodity chain governance. Source: author. .................................. 23

**Figure 6:** Remodelling Gereffi, Humphrey and Sturgeon’s (2005) value chain governance regimes – non-firm actors in captive and relational chains. Source: author. ......................... 27

**Figure 7:** Collaborative firm and non-firm chain governance. Source: author. ..................... 31

**Table 1:** Selected development agencies and NGOs that provide guidelines on value chain development ............................................................................................................. 17

Acronyms

GIZ = German Agency for International Cooperation (formerly GTZ)
IFAD = International Fund for Agricultural Development
IFOAM = International Federation of Organic Agriculture Movements
IIED = International Institute for Environment and Development
ILO = International Labour Organisation
IMF = International Monetary Fund
ITC = International Trade Centre
M4P = Making markets work better for the poor
NGO = Non-governmental organisation
SDC = Swiss Agency for Development and Cooperation
SME = Small and medium-sized enterprises
SNV = Netherlands Development Organization
TNC = Transnational corporation
UKAID = United Kingdom Agency for International Development (formerly DFID)
UN = United Nations
UNCTAD = United Nations Conference on Trade and Development
UNIDO = United Nations Industrial Development Organisation
USAID = United States Agency for International Development
VC4D = Value chains for development
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

1. Introduction

From the mid-1990s, following neoliberal reforms encouraging deregulation and the liberalisation of markets in developing countries, there has been a focus among donors on ‘pro-poor’ markets and ‘making markets work for the poor’ (Helmsing and Knorringa 2009). There has been a shift from community development to enterprise development (Helmsing and Knorringa 2009). As well as working on employment and income-generation projects, development agencies and non-governmental organisations (NGOs) are increasingly collaborating directly with business, including transnational corporations (TNCs). TNCs are seizing this opportunity to associate with non-profit agencies, since consumer pressure has forced them to invest in corporate social responsibility initiatives. Value chain for development (VC4D), a term widely promoted by the Dutch Royal Tropical Institute, is one trend within this broader shift in international development towards focusing on markets as a means to poverty reduction.

The concept of a global value chain has been popular since the 1990s, as a way to understand how trade is taking place in this era of globalisation. Rather than looking at individual firms or sectors, the value chain approach examines linkages between all actors involved in adding value (UNIDO 2009): from production of raw materials, through processing, design and manufacturing stages, via intermediary traders, to the marketing of finished products. Researchers analyse how products, resources, and finances travel along chains, and where power lies. Figure 1 below shows a generic mapping of an agro-commodity chain, that is, a chain that traces agricultural products such as fruit, vegetables, coffee, cereals or cotton. The assumption is that, in comparison to classical understandings of market interactions, there is usually some form of coordination or governance of a value chain, with one or several actors in a chain wielding power over others. In today’s globally competitive trade environment, the governor in an agro-commodity chain is likely to be a large retailer or an international trader (Gibbon 2001).
Since the early 2000s, UN agencies, Western government international development agencies, and NGOs have begun to utilise the global value chain perspective to define market-based interventions to tackle poverty, and generate economic growth. They are intervening in agro-commodity chains, which are key sources of livelihoods and income for developing countries, in order to find ways to enable poor producers and processors to benefit from globalisation (Kaplinsky and Morris 2002), rather than be exploited by large firms. This may involve integrating excluded smallholders into global markets, challenging the domination of global retailers, and working to increase the bargaining power of producers. NGOs and development agencies are also working to improve the performance of whole chains, make them more competitive, and help them access new consumer markets, such as those centred around organic and fair trade standards (Bitzer et al. 2009; Kula et al. 2006; Stoian et al. 2012; UNIDO 2009). In this paper, I refer to these insider development agencies and NGOs which are working closely with value chains as ‘non-firm actors’. The term does not appear to have been used in global value chains literature, but an internet search reveals its use in global production networks literature.
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

Development agency literature has begun to define best practices for intervening in agro-commodity value chain development, yet there is currently a lack of academic analysis of the effects on chains. Having worked on cotton value chain development in Senegal myself, I have observed that NGO interventions in chains can have a number of effects beyond the inclusion and upgrading of poor producers and processors and the facilitation of access to new niche markets. Non-firm interventions can have varying consequences for relationships between chain actors, selection of firms to be involved in chains, and chain strategy, which can in turn affect livelihoods. This observation has motivated me to switch from a practitioner role to an academic one, through answering the following question:

*What roles are NGOs and development agencies playing in agro-commodity value chain development, and what are the effects of their interventions on value chain governance?*

Research objectives are as follows:

1. Review literature on value chain governance and assess its usefulness for understanding NGO and development agency roles (chapter 2)
2. Identify and analyse why NGOs and development agencies are intervening in agro-commodity chains, what roles they are assuming, and the assumptions behind their interventions (chapter 3)
3. Evaluate the effects of NGOs and development agencies taking on these roles on chain governance (chapter 4)
4. Assess the implications of the above for the VC4D trend (chapter 4 and conclusion)

In examining such a recent trend in international development, this paper makes a number of contributions. As is explored in more detail in chapter 2, existing literature on value chain governance tends to position NGOs and development agencies as external stakeholders or chain supporters. By examining NGO and development agency manuals on how to carry out value chain development, and by drawing on evidence from a range of empirical studies, I argue that many of these non-firm actors are taking on key roles in value chain governance. I then assess a range of effects of the actions of these new governors on power relations in chains, highlighting key tensions and contradictions. My conceptualisations of non-firm actors in agro-commodity chains contribute to theoretical debates on chain governance, providing a basis for future research. The findings also encourage practitioner reflection on the effects and legitimacy of interventions in agro-commodity value chains.
In terms of limitations of scope, my analysis does not attempt to provide an assessment of whether and how value chain initiatives succeed in developing successful chains or reducing poverty. Rather it deals with the consequences of NGO and development agency involvement on actors, processes and dynamics within value chains. This paper is based on secondary data extracted from available literature on a range of cases, from varied sectors and countries. I do not attempt to analyse differences between these cases, but provide an overall picture of the trend.

2. How useful is the value chain governance literature for analysing non-firm actors?

2.1 What is value chain analysis?

As indicated in chapter 1, value chain analysis allows researchers to find out how firms are linked together in chains, how products, finances and information flow between actors, and how chains are coordinated. Analysis of a chain can highlight which actors are benefitting most from the linkages, and where there is potential for upgrading (Roduner 2007), by identifying where problems lie within a chain, and key leverage points (Schmitz 2005). Upgrading can involve improving products through design and branding, or upgrading processes, thus enabling actors at the bottom of the chain to move up and benefit from higher added value (de Boer et al. 2009; Kaplinsky and Morris 2002; Ouma and Whitfield 2012; van Wijk and Kwakkenbos 2011). Numerous manuals have been developed by academics on how to carry out value chain analysis, such as Kaplinsky and Morris (2002). Many NGOs and development agencies have used these academic guides as a starting point to defining their approaches to chain development – these are examined in section 3.2.

There is no single way to carry out value chain analysis: researchers often limit their focus to specific aspects, such as where value is created and how profits are distributed, or relationship issues such as trust and transparency. Data is typically collected from chain actor reports and documents, and semi-structured interviews with chain actors (Kaplinsky and Morris 2002; Kleine 2008; Roduner 2007). Analysis typically begins with mapping the chain (Kaplinsky and Morris 2002). However, chains tend to be much more complex in reality than the way they are presented by analysts. Also, chains may overlap (Altenburg 2006), meaning it is difficult to gain an accurate picture. Figure 2 below illustrates this point.
Although value chain analysis is clearly useful for identifying opportunities and constraints, there are a number of limitations to the approach. These include the risk of chain actors supplying inaccurate information (Altenburg 2006; Kleine 2008), the lack of consensus on how value chain analysis should be carried out (Gibbon and Ponte 2005; UNIDO 2009), and a lack of focus on individual workers and their livelihoods (Challies and Murray 2011; Helmsing and Vellema 2011; Stoian et al. 2012; UNIDO 2009). Another criticism relates to the fact that value chain analysis is limited to specific chains, thereby ignoring the wider business environment (Porter 1990, cited by Altenburg 2006; Helmsing and Vellema 2011). Typical value chain mapping techniques tend to focus on vertical linkages between chain actors, while ignoring horizontal linkages between firms, chains, and non-firm actors. This paper aims to begin to fill this gap by recognising the importance of including non-firm actors in value chain analysis.

2.2 Value chain governance theory

Gereffi et al. (2005, p.4) define chain governance as the ‘non-market coordination of economic activity’. Here we are not talking about institutions which set rules to control markets, but of control within value chains. Some authors make distinctions between governance as the power to shape rules in a chain, and governance as coordination between linkages (Gibbon and Ponte 2005; Hess 2008; Morris 2001; Riisgaard and Hammer 2011). In this paper, I use the term governance to broadly describe the management of chains and of actors within them. This may involve production decisions, organising logistics, identifying rent opportunities for chain actors, rule setting, monitoring, applying sanctions, facilitating relationships, managing...
The effects of non-firm actors' interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

conflicts, and supporting weaker actors (Enzama 2011; Humphrey 2005; Morris 2001). A chain actor may take on a governor role in order to ensure the efficiency and success of a chain, and/or to gain and maintain power over chain strategy and the allocation of resources and profits.

As for who governs chains, global value chains literature provides the concept of a lead firm. Today, lead firms in agro-commodity sectors are typically multinational buyers and retailers, which offer international market access, and generate high value at the top of the chain through design and branding (Altenburg 2006; Gereffi 1999). Gereffi (1999) describes these as buyer-driven chains, as opposed to producer-driven chains, such as those controlled by large manufacturers. However, chains are not necessarily governed by one lead firm – there may be a number of ‘nodal points’ of coordination within one chain (Morris 2001), and as stated above, chains may be interlinked and overlapping, making the governance picture much more complex. A lead firm can coordinate a chain at arm’s length – where close relationships are not needed as products are standardised, and the buyer can easily find other suppliers to switch to (Schmitz 2005). Or, a lead firm can closely monitor other actors in the chain where doubts about capacities of suppliers exist (Schmitz 2005). While the concept of a lead firm is useful for analysing where power lies in a chain, the implication is that chains are necessarily governed by firms. Throughout this paper, I demonstrate how non-firm actors are also governing chains, either in replacement of, or alongside, lead firms.

Figure 3 below illustrates Gereffi et al.’s (2005) widely-used conceptualisation of different types of value chain governance, ranging from market interactions where power asymmetry is low, to chains where coordination and power asymmetry are high. Even though the diagram is understood to be a simplified version of a more complex reality, the omission of non-firm actors in chain governance is worth noting.
In agro-commodity chains, the captive model is common. Supermarkets, international traders, or clothing brands exert power over a number of small suppliers. In many ways, coordination by a lead firm offers benefits for a chain. In addition to providing market access to other chain actors, governors can use their power positions to ensure their market-driven approach is followed, guaranteeing chain competitiveness by cutting costs, increasing quality, and increasing speed (Altenburg 2006; Bitzer et al. 2009; de Boer et al. 2009; Challies and Murray 2011, Riisgaard et al. 2010; Schmitz 2005). Lead firms may also offer technical support to small producers and processors, leading to upgrading (Gibbon and Ponte 2005). However, sustained business for chains does not necessarily mean profits will trickle down, or that investment will be made to upgrade actors lower down the chain. Cost-cutting and efficiency measures can mean producers are kept in poverty. For agricultural producers, this may mean limiting inputs and technology and increasing intensity of land use, and for small-scale processors may mean lower quality components, shorter lead times, longer hours and lower salaries. Lead firms can easily switch suppliers; the risk of being excluded means suppliers are forced to comply with their rules (Altenburg 2006).
NGOs and development agencies, on the other hand, tend to favour the relational model, where interdependencies are created between suppliers and buyers, in the hope that relationships will be long-lasting, and suppliers will gain more bargaining power. Nevertheless, as will be revealed in chapter 3’s review of development agency approaches, the assumption that small producers need to be linked to lead firms in developed countries in order to benefit from their market access and expertise is still common. I explore attempts to turn captive chains to relational chains in chapter 4.

Having referred to a key aspect of chain governance as holding power over other chain actors, it is necessary to examine definitions of power. Heywood (2000, p.35) defines power as ‘the ability to influence the behaviour of others in a manner not of their choosing’, in order to achieve a desired outcome. Hay (2002) examines complex debates on power, summing up three dimensions of power as decision-making, agenda-setting, and shaping preferences. Lead firms are able to use all three of these dimensions to influence the behaviour of chain actors. They can make decisions regarding production, target markets, and codes and standards to be followed, and influence chain actors’ decisions using their reputation and ability to exclude. In chapter 4, I use evidence to argue that NGOs and development agencies are in many cases acquiring these dimensions of power over chains through their interventions. I also discuss the challenges of empowering small producers while lead firm power remains so strong, and examine the possibility of shared power between governors.

In a relational value chain in particular, the model typically favoured by NGOs and development agencies, the absence or presence of trust between actors can be an important factor in building competitiveness. Trust can be defined as a belief that another will not act to exploit one’s vulnerabilities (Morrow et al. 2004). In relationships in which there is uncertainty, an actor may be a trustor – the one in a vulnerable situation, or a trustee – the one who is able to take advantage of the trustee, or both (Möllering 2005). Building trust reduces uncertainties, information asymmetries, and in turn transaction costs (Hofstede et al. 2010; Marques Vieira and Traill 2008). The extent to which trust is built is influenced by types of communication and interaction between actors, and reputation: what others say about a firm (Hofstede et al. 2010). Behaviours influenced by trust include selection of partners, contract lengths, the strictness of monitoring, types of communication, and availability of credit within chains (Hofstede et al. 2010; Kaplinsky and Morris 2002; Micheels and Gow 2011). In chapter
4, I examine how NGOs and development agencies are aiming to foster trust between chain actors. I also examine the challenges in building trust between NGOs and chain actors.

In the twenty-first century, there has been a rise in private regulation mechanisms set by industry organisations, lead firms or NGOs (Altenburg 2006). Rules are set for firms relating to quality, safety, and social and environmental issues, driven by civil society pressure. Since demand is rapidly growing for goods with social and environmental certifications, big international brands are now buying into labels such as fair trade – a scheme previously operating to connect small producers with consumers through its specialised retail outlets (Helmsing and Knorringa 2009). Therefore, NGOs are working to promote such standards in corporate-led chains. For small producers and processors, these standards provide an opportunity for product differentiation and tapping into growing markets (Altenburg 2006; Bain 2010; Humphrey 2005; Muradian and Pelupessy 2005). However, costs and complexities of complying create barriers to entry, which exclude large numbers (Altenburg 2006; Bain 2010; UNIDO 2009), and target markets are limited (de Boer et al. 2009). Rules tend to be set by Western actors, raising questions about their appropriateness for differing developing country contexts.

Interpretations of the effects of these codes and standards on value chain governance vary. A number of authors describe how standards act as governors of chains, setting rules from outside, and providing frameworks and mechanisms for monitoring and sanctions (Bain 2010; Marques Vieira and Traill 2008; Schmitz 2006). This means lead firms can take a hands-off approach, reducing their monitoring costs (Muradian and Pelupessy 2005). Raynolds (2008), for example, argues that there is a move away from relational cooperation in fair trade chains as they become corporatized, since the focus shifts to traceability rather than trust. In contrast, several studies have found that private international standards require close cooperation between chain actors, including lead firms, and thus lead to stronger relationships (Altenburg 2006; Marques Vieira and Traill 2008; Muradian and Pelupessy 2005). Yet these assessments of codes and standards as governance tools do not explore the role of value chain-oriented NGOs and development agencies in promoting such standards. In chapter 4, therefore, I examine the effects on power relations of non-firm actors using such tools to govern chains.
2.3 Non-firm actors in value chain literature

Having identified a general lack of analysis of non-firm actors in mainstream theoretical debates on chain governance and power, I now examine the ways in which non-firm actors are referred to in value chain literature. In a small number of recent studies, a surprisingly broad range of terms are used to situate non-firm actors in, and outside of, value chain governance. NGOs, development agencies, standards organisations and researchers are described as: non-chain actors (Helmsing and Vellema 2011), chain-external actors (Bitzer et al. 2009), service providers (Kula et al. 2006; Stoian et al. 2012; UNIDO 2009), external stakeholders (Stoian et al. 2012), intermediaries (Raswant and Khanna 2010), and chain supporters (UNIDO 2009), with these conceptualisations depending on the roles undertaken. In many cases, value chain collaborations involving NGOs are described as partnerships (Drost et al. 2012; Muller et al. 2006) or platforms (Thiele et al. 2011). However, interventions which focus on the idea of a partnership tend be limited to relationships between an NGO or development agency and a lead firm, rather than the entire chain. Governments not directly involved in chain development, yet nevertheless influencing chains through policy decisions and regulation, and providing public goods, services and infrastructure, are typically termed the institutional environment, enabling environment (Albu and Griffith 2005), or framework conditions (UNIDO 2009). Figure 4 below reflects how non-firm actors are typically portrayed in value chain studies, as service providers and chain supporters, influencing chains from afar, in the same way as government policy and regulation.
NGOs and development agencies are not generally considered chain actors. For Altenburg (2006), NGO support for a chain does not directly affect value addition between chain actors, so should be considered a horizontal linkage, in the same way as a service provider such as a transportation firm, rather than a chain actor. Similarly, UNIDO (2009; p.25) makes the distinction between chain actors as those who ‘deal directly with products, production and trading’, and other actors who support the functioning of a chain from outside. In chapter 4, I challenge these assumptions regarding the roles of NGOs and development agencies, using evidence to argue that NGO and development agencies are often key chain actors.

2.4 Research methodology

In order to provide new theoretical understandings of how NGOs and development agencies are affecting chain governance, to begin to fill the gaps in the literature identified above, an exploration and analysis of a broad range of data is needed. This will allow common patterns to be identified and used to build overarching conclusions. For this reason, in this paper I analyse secondary data from a broad range of studies which cover non-firm actor roles in value chains, rather than focusing on a particular sector or geographical area. This literature-based approach is appropriate for identifying theoretical conclusions to be built on by empirical studies in future.
In order to identify relevant sources, online academic databases and broader internet searches were used. A lack of academic literature on non-firm actor involvement in value chain development, and the broad range of terms used to describe non-firm actors, meant it took some time to identify relevant sources. As the research progressed, searching for the term ‘non-chain actor’ highlighted a number of useful studies. Snowballing then enabled me to find additional sources via these studies’ reference lists. My search technique and method for selecting literature were not systematic: I endeavoured to identify all relevant studies, until I reached a point where they were no longer bringing new insights.

In addition to theoretical and contextual literature, and agency manuals on value chain development, this paper draws on evidence from 20 empirical studies, carried out between 2001 and 2012, covering a total of over 70 case studies of non-firm intervention in chains. These cases are from over 20 countries in Africa, Asia, and Latin America. Over 20 agro-commodity sectors are covered, including textile fibres, fruit, vegetables, cereals, alcoholic beverages, and dairy products. The methodologies of these studies involved reviewing company, NGO and development agency documents, interviews with chain actors, and literature reviews. Ten out of the 20 studies were connected to Dutch universities, research institutions or development agencies. This may reflect a particular focus on market-based development among researchers, NGOs, and government agencies in the Netherlands. Since this is a desk-based study, research ethics are only a minor consideration: names of NGOs and producer groups are omitted, in order to focus on the implications of findings rather than on criticising the approaches and actions of specific groups.

Although this literature-based approach has shown to be the most appropriate for answering my research question, there are evidently methodological limitations, beyond an obvious limit to the amount of data available due to the newness of the topic. Evidence is drawn from a wide range of sectors and locations to build general conclusions: there will of course be varying effects of non-firm interventions on chain governance, depending on the chain. There has been no analytical triangulation, as I have carried out this research alone. Arguments made in this paper reflect my personal interpretation of the data, providing a starting point to be built on by further research.
3. Why and how NGOs and development agencies are getting involved in agro-commodity chain development

3.1 Why agro-commodity chain development: unpacking NGO and development agency motivations

Agricultural production remains a crucial source of livelihoods and income for many developing countries, and in many cases agro-commodity sectors are made up of vast numbers of smallholder farmers (Gibbon 2001). In the decades following independence, agro-commodity sectors in sub-Saharan Africa, for example, were often coordinated by states, which controlled prices, provided inputs and credit, and marketed smallholder products to overseas buyers (Bitzer et al. 2009; Gibbon 2001). However, many were seen to be poorly managed, and excessive rent-seeking and corruption were blamed for limited success (Bitzer et al. 2009). Neoliberal globalisation over the last thirty years has significantly changed the trading environment for producers and processors in developing countries. In the 1990s, IMF structural adjustment policies, among others, encouraged states to roll back, and give way to global market forces. Diminishing state intervention in trade meant rapidly-growing TNCs became the new global powers.

The global nature of these big buyers and retailers, which provide access to global markets, means there is now a strong pressure on agricultural sectors to compete at global level, following this liberalisation of global agro-commodity markets (Altenburg 2006; Gow and Shanoyan 2010; Roduner 2007). In order to satisfy these big buyers, producers are required to fulfil their strict requirements in terms of product quality and reliability (Humphrey 2005). Exporters need to compete more actively on price by finding economies of scale, and are required to produce, process and deliver faster (Altenburg 2006). A further push for producers and processors in developing countries to compete with global players is provided by the fact that their local markets are now suffering from an influx of cheap foreign imports (Drost et al. 2012). This means many farmers and manufacturers are no longer able to rely on local markets as a key constituent of their incomes. Trade also suffers due to governments often failing to provide public goods such as transport infrastructure and networks, communications systems, or reliable water or energy services (Drost et al. 2012), whether due to lack of resources, lack of strategy, or corruption.

With developing country governments often no longer in a position to provide sufficient support, producers and processors are left alone to deal with global brands or profit-hungry
middlemen. They have few options as to who to sell to, are less likely to have access to market information in order to negotiate fair terms, and are unlikely to be able to trust these buyers. This information asymmetry between producers and buyers, high transaction risks and costs, scale diseconomies, lack of trust and commitment, and monopoly power of certain retailers are cited as defining factors of market failure (World Bank 2007, cited by Bitzer et al. 2009; Bitzer et al. 2009; Dorward et al. 2005; Drost et al. 2012). Market failure is defined as a situation where a lack of capacities and/or institutional support mean market relations do not arise (Helmsing 2008, cited by Bitzer et al. 2009). Poverty or loss of income resulting from market failure is said to merit non-market intervention (Barrass 2007; Stiglitz 1989, cited by Enzama 2011), thereby justifying the interventions of NGOs and development agencies. Similarly, Gereffi and Mayer (2006), cited by Mayer and Pickles (2010), consider the withdrawal of government interventions in trade as having left a ‘governance deficit’. On the one hand, TNCs are filling this gap, by becoming lead firms, and governing actors within value chains, as explored in chapter 2. Yet TNCs have their own profit motives, and are likely to continue to govern chains in ways that exploit weaker actors. This governance deficit, therefore, provides justification for NGOs and development agencies to intervene in value chains, either alongside or instead of TNC governance.

To sum up, NGOs and development agencies are intervening in agro-commodity chains with the aims of helping poor producers and processors benefit from the globalisation of trade, rescuing failed markets, and filling governance deficits. Their VC4D initiatives reflect the emergence of a new paradigm among development practitioners which sees participation in global trade as a key path to poverty reduction. In contrast to ongoing battles between NGOs and TNCs on land-grabbing, waste-dumping, and numerous other detrimental effects of corporate operations in developing countries, attracting corporate investment is today seen by many as beneficial for poverty reduction, due to its potential to create jobs and fuel growth (Altenburg 2006; Muller et al. 2006). Traditional donor strategies of investing in social development, or working through governments, are widely criticised for lack of impact, inefficiencies, and facilitating corruption. Consequently, many development practitioners are, perhaps reluctantly, accepting to work within the market-driven context.

I now unpack in more detail how NGOs and development agencies are intervening in value chains as a way to influence how trade develops, according to their own agendas. As stated by Hess (2008), developing a value chain is a political project. NGOs, funded by donors, and
Western development agencies, allocated public money to carry out international development, have clear social and environmental objectives. While conventional value chain approaches are often criticised for the lack of attention paid to social and environmental development (UNIDO 2009), NGOs and development agencies are aiming for a more inclusive form of economic growth through their VC4D initiatives (Stamm and von Drachenfels 2011). As outlined in chapter 2, this may be through promoting codes and standards, or through working towards the inclusion and empowerment of poor producers.

Although value chain development may be relatively new for NGOs and development agencies, supporting small producers is not. NGOs have been organising smallholders into cooperatives for several decades, in order for them to benefit from economies of scale and increased seller power, learn collectively, and meet buyers’ requirements (Gow and Shanoyan 2010; Murphy 2012; van Wijk and Kwakkenbos 2011). NGOs typically offer continued technical support and credit to cooperatives once they are formed, which has been shown in many cases to increase yields and/or product quality (van Wijk and Kwakkenbos 2011). Today, as stated above, many organisations expanding their support to whole chains are motivated by the aim of integrating smallholders into global markets. Since TNC chain governors have typically favoured working with large contract farms in the past, which require less support (UNIDO 2009), NGOs are helping create linkages between cooperatives, processors and retailers (Enzama 2011). However, it is worth questioning whether in all cases producers are necessarily better off included in global chains (Helmsing and Vellema 2011), as exclusion may not be simply due to a lack of capacities on the part of the producers. Some may prefer voluntarily excluding themselves, favouring local and domestic markets due to perceived lower risk of market shocks (Ponte 2008), or to preserve cultural values which focus on local systems. This raises questions about the legitimacy of NGOs pushing for smallholder linkages with global firms – more understanding is needed of what particular producers want, and whether rebuilding domestic chains may offer more sustainable markets.

Once producers are included in global markets, NGOs and development agencies are working to ensure they are included in favourable ways, by attempting to redress power imbalances in chains (UNIDO 2009; van Wijk et al. 2009). As explored in chapter 2, TNCs as lead firms tend to wield great power over other chain actors, whereas small producers are required to comply with their demands and rules. NGOs and development agencies are working to empower small
producers to negotiate better terms and make informed decisions on production and partners (Murphy 2012). The challenges of achieving empowerment are discussed in section 4.3.

3.2 Approaches to value chain development

In this section, I review guidelines from the following organisations, which are particularly active in VC4D, and have made their literature widely available:

**Table 1: Selected development agencies and NGOs that provide guidelines on value chain development**

<table>
<thead>
<tr>
<th>Country</th>
<th>International development agencies</th>
<th>UN agencies</th>
<th>International NGOs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>German Agency for International Cooperation (GIZ – formerly GTZ)</td>
<td>United Nations Industrial Development Organisation (UNIDO)</td>
<td>Helvetas (Switzerland)</td>
</tr>
<tr>
<td></td>
<td>United States Agency for International Development (USAID)</td>
<td>International Fund for Agricultural Development (IFAD)</td>
<td>Practical Action (UK)</td>
</tr>
<tr>
<td></td>
<td>Swiss Agency for Development and Cooperation (SDC)</td>
<td>International Labour Organisation (ILO)</td>
<td>Netherlands Development Organization (SNV)</td>
</tr>
</tbody>
</table>

It is worth noting that all of these examples are of Western organisations, which either work directly in the field, or through local partner organisations. Western agendas and perspectives may play out through their VC4D projects, such as the promotion of trade with the West, or Western cultural perspectives on gender or children working. These manuals lack discussion on the broader consequences of value chain development, such as the long-term consequences of uncurbed economic growth, or criticisms that VC4D supports a continued roll-back of state involvement in trade. For example, only some manuals briefly touch on the importance of lobbying for government policy in support of small producers, small and medium-sized enterprises (SMEs), and socially and environmentally responsible business, implying that collaborations between firms and NGOs are sufficient for meeting the inclusive growth objective.
Manuals vary in their guidance on chain selection. SNV and IFAD recommend identifying chains with the greatest potential to benefit the poor, or those that already include poor people, women or ethnic minorities (Raswant and Khanna 2010; SNV no date). Some select chains based on the strength of the environmental and social codes of conduct of the lead firm (de Boer et al. 2009), or on the lead firm’s embeddedness in the local community, measured by its contacts and reputation (Drost et al. 2012). However, it appears that many organisations select chains based on existing links with producers, or select a producer group to build a chain around, and then carry out value chain analysis in order to decide how to intervene. Gow and Shanoyan (2010) are critical of chain engineering by non-firm actors, asserting that chain actors should self-select. Indeed, this is more likely to ensure genuine buy-in and commitment to a chain project.

GIZ and UKAID provide very detailed guidelines for carrying out thorough chain analysis, in order to plan appropriate interventions for selected chains. Others proceed with a more fluid, participatory process, where plans are made during stakeholder workshops (Altenburg 2006). Yet Altenburg (2006) highlights the fact that high levels of participation are hard to achieve in practice, and are also costly and time-consuming. Indeed, even USAID and Practical Action manuals advocating participatory approaches provide very detailed instructions on how to carry out value chain development (Albu and Griffith 2005), thus requiring substantial coordination by agency staff. In contrast, while some agencies do provide guidance on how to define indicators for impact assessment, it is widely observed that impact assessment in the majority of value chain projects is either weak or non-existent (de Boer et al. 2009; Gomez 2010; Muller et al. 2006; Ponte 2008; Raswant and Khanna 2010; Stoian et al. 2012).

Most agencies are clear that their roles should be restricted to chain facilitation, rather than taking on chain coordination responsibilities (van Elzakker and Eyhorn 2010; Roduner 2007; SNV no date; Springer-Heinze 2007). They consider appropriate roles for chain facilitators to include: providing market information and advice, capacity building and technical training, building and strengthening linkages between actors (by organising meetings, mediating discussions and negotiations) and lobbying for supportive institutional environments (van Elzakker and Eyhorn 2010; Enzama 2011; Roduner 2007; SNV no date; Springer-Heinze 2007; Stoian et al. 2012; UNIDO 2009). IFOAM reiterate that facilitators should not be directly involved in buying or selling, should not provide ongoing agricultural advisory services for free, and should not carry out marketing (van Elzakker and Eyhorn 2010). SDC assert that non-firm
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

actors should not take on market roles that could be undertaken by local businesses (Roduner 2007). Views vary on whether facilitators should provide chain actors with credit and investment. Arguments against consider the risk of chain actors becoming dependent on NGOs and losing their entrepreneurial mindset (van Elzakker and Eyhorn 2010; Gow and Shanoyan 2010).

Most agencies agree that their roles should be temporary, and that chains should be able to function and grow by themselves after their interventions (van Elzakker and Eyhorn 2010; Gow and Shanoyan 2010). IFOAM clearly state that any permanent facilitation needed should be paid for by chain actors (van Elzakker and Eyhorn 2010). Muller et al. (2006) propose a lifecycle approach to value chain development, where NGO and development agency roles shift from heavy to light support as the initiative progresses. However, organisations often find it difficult to exit their roles completely, as chain actors, in particular small producers, often become reliant on the external support.

A common theme in manuals on VC4D is the need for approaches to be market-driven (de Boer et al. 2009; van Elzakker and Eyhorn 2010; Gow and Shanoyan 2010). Practitioners are advised to design interventions based on demand and supply capabilities, and adopt an entrepreneurial style of thinking (de Boer et al. 2009; van Elzakker and Eyhorn 2010). Practical Action train staff on market mapping, and are critical of agencies that outsource business-related tasks such as market research to the private sector (Albu and Griffith 2005). They argue that development practitioners should develop ‘market literacy’ themselves, in order to legitimately and effectively carry out economic development initiatives. Helvetas focus on extracting market information from chain actors and chain supporters through the Rapid Market Appraisal methodology (Joss et al. 2004). They argue that traditional market research is too costly and time-consuming, and that insiders are best placed to define feasible interventions. It is broadly assumed that NGOs and development agencies possess, or are able to easily develop, the skills needed to carry out market development. Yet intervening in markets is new for development practitioners, so it may take time for relevant skills to be developed and for agencies to find their place in market development.

Most recommend incorporating social and environmental standards into value chains (van Elzakker and Eyhorn 2010; Roduner 2007; Springer-Heinze 2007), both in order to satisfy their sustainable development agendas, and to justify the use of public money on private-sector
development. Some also recommend shaping new markets, by working to develop consumer demand for niche products with fair trade or organic certification (de Boer et al. 2009; Kula et al. 2006), yet others advise against this, advocating working within existing market channels. Humphrey (2005), for example, warns that new markets created by NGOs and agencies rarely function beyond the period of donor support, with subsequent collapses being detrimental to small producers involved. There appears to be little discussion between agencies and chain actors on alternative market channels which do not require certification. There may be a contradiction in agencies’ promotion of a market-driven approach, while at the same time advocating a focus on niche certified markets, which may or may not make business sense in the short term.

Although VC4D is about supporting entire chains, many agencies display loyalty to poor producers, whom in many cases they have been supporting for many years. SNV, for example, explain how their value chain projects have the overall aim of linking smallholders to markets so they can sell more and get higher prices (SNV no date). IFAD’s value chain initiatives also focus on increasing farm-gate prices (Stamm and von Drachenfels 2011). These agencies appear less concerned with, or less capable of, supporting in-country processing firms, such as food processors, breweries and textiles firms, despite this being a key path to economic growth through industrialisation. In contrast, others are clear about their focus on processing firms and even TNCs. ILO and ITC prefer to support the development of SMEs in developing countries (Stamm and von Drachenfels 2011), and UNIDO and UNCTAD, now prefer to work directly with TNCs lead firms (Stamm and von Drachenfels). Rather than working to support the weaker actors in the chain, these agencies see lead firms as the key to upgrading whole chains, and in turn improving the position of poor producers. TNCs are seen to be able to provide business expertise which NGOs lack. Yet there appears to be little discussion in these manuals of the legitimacy of using public funds to support these global companies, and little consultation with small producers and processors on how they feel about the relationships between NGOs or development agencies and TNCs.

4. Key findings on the effects of non-firm actor interventions on agro-commodity chain governance

4.1 The new governors? Non-firm actors gaining power over chains
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

Firstly, I examine what sources of power NGOs and development agencies are drawing on in order to access strategic roles in chains. Chain actors are allowing NGOs and development agencies to intervene in value chains since they have something to offer. First if all, NGOs and development agencies bring donor funding. This makes their proposals of collaboration attractive to private sector actors, who hope to benefit from free services and support. Secondly, many NGOs and development agencies possess expert knowledge on certification systems and good contacts with certifiers. NGOs are in a position to create consumer demand for certified products (Altenburg 2006, van Wijk et al. 2009) through awareness-raising campaigns, and joint marketing strategies with big business. They are also at times working with certification bodies to have input on standard setting, or working to set up their own certification systems (Altenburg 2006). The capacity to finance chain building and upgrading, and the capacity to facilitate access to new markets, can be seen as sources of power for these non-firm actors over value chains. Chain actors are likely to listen to NGOs’ or development agencies’ advice or instructions if they rely on these forms of support for ensuring the success of their chain.

NGOs are using the sources of power described above as access points for their interventions in chains. Going back to chapter 3’s discussion on what roles NGOs and development agencies consider appropriate for their interventions, a range of cases show how many are going beyond facilitation, and are actively coordinating the chains they have access to. For example, Van Wijk et al. (2009), describe how three chains - mango in Burkina Faso and Mali, cotton-garment in Burkina Faso, and sorghum-beer in Ghana, are established and maintained by NGOs. The NGOs provide financial support and capacity-building, and in the first two chains also cover the costs of fair trade and organic certifications for producer cooperatives (Van Wijk et al. 2009). Similarly, Muller et al. (2006) concluded that the three chains they studied (sorghum in Ghana, mango in Burkina Faso and Mali, and cotton in Uganda) only exist and function because of their coordination by NGOs. Bitzer et al. (2008) describe NGOs in the 12 fair trade coffee chains they studied as the most active actors in the chain, bringing together producers and large firms. By being the most active participants, being a first point of contact for chain actors, and being the key providers of technical support and training to chain actors, NGOs are able to exert power through influencing chain actors’ preferences and decisions. To refer back to chapter 2’s definition of chain governance, in these cases, it can be argued that NGOs are becoming chain governors by organising logistics, facilitating relationships, supporting weaker actors, and identifying rent opportunities in niche markets.
It is not always clear whether NGO coordination is intended to be temporary, as advocated by the VC4D manuals reviewed in section 3.2. On the one hand, van Wijk and Kwakkenbos (2011), for example, describe four beer chains in sub-Saharan Africa where NGOs will withdraw after a fixed period, and the breweries will continue to govern, working to the new arrangements developed by the NGOs. Yet a local NGO in Nicaragua described by Gomez (2010) is openly taking on a permanent governor role. Coffee, taro, corn, bean, grain and cocoa value chains are coordinated by the NGO, which offers credit, technical support, and market access, and manages linkages between actors. The NGO describes itself as a ‘value chain organisation’, priding itself in the importance of its role in the chains. All product and resource flows pass through the NGO, with no direct links between farmers, traders and retailers (Gomez 2010). The variety in approaches taken by NGOs is likely to be confusing for chain actors, who may be unsure of what they can expect from the NGOs and for how long.

One implication of NGOs taking on permanent governor roles is that lead firms may no longer feel a responsibility to carry out coordination activities, or share market and technical expertise with actors lower down the chain. If lead firm responsibility in chains is diminishing due to NGOs performing governance roles, this could suggest that lead firms are taking advantage of the free or cheap services provided by NGOs, while maintaining their power position in terms of control of profits. As is explored in more detail in section 4.3, a non-firm actor gaining power over a chain does not necessarily mean lead firm power is diminishing. NGOs in many cases may not be as free as it first seems to make decisions about chain strategy, as they need to take into account lead firm priorities in order to continue to take advantage of the good market access and expertise they provide.

Few authors have offered terminologies for this finding that NGOs and development agencies are becoming chain governors. The only references to this phenomenon I have come across to date are Raswant and Khanna’s (2010) notion of an ‘intermediary-driven chain’, yet they use this to refer to coordination provided by an NGO or social enterprise for a fee, and Muller et al.’s (2006) use of the term ‘NGO-driven chain’. Figure 5 below illustrates my addition of non-firm governors to an agro-commodity chain. The NGO or development agency is portrayed as an overarching actor, influencing other chain actors, and/or acting as an intermediary, while also potentially working to influence the enabling environment. The diagram is of course a simplified representation of a complex reality, and does not attempt to portray scale of power.
There may be several non-firm actors working with a single chain (Muller et al. 2006), just as there can be several lead firms. Section 4.4 builds on this inclusion of a non-firm governor in a value chain by portraying a non-firm governor and a lead firm governor in the same chain.

Numerous questions are raised about the legitimacy of this new non-firm governance of value chains. In terms of whether chain actors accept the authority of non-firm governors, evidence suggests sometimes they may not. For example, van Wijk et al. (2009) found that sorghum farmers complained about the involvement of an NGO in the chain, as they did not feel they were getting a good deal in terms of prices. Only cases operating to a participatory chain development model (such as Devaux et al. 2009) appear to be making attempts to take into account the views of chain actors on what kind of external support they may want. Yet there is little real discussion in the literature on chain actors’ views of non-firm interventions as opposed to lead firm governance – this is an area in need of future research.

There are also doubts about whether non-firm actors are capable of effectively governing chains. NGOs are typically experienced in community and social development, but many lack business knowledge and skills. In my own experience of value chain development in Senegal, for example, it proved difficult for the NGO to gain the trust and commitment of a local
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

processing firm. While the NGO was competent in facilitating communication between stakeholders, it was perhaps a lack of business expertise which contributed to the firm pulling out of the chain. Therefore, as discussed in chapter 3.2, NGOs may require external business consultants for value chain development projects. In addition, it can be difficult for non-firm actors to provide incentives or penalties to ensure compliance to rules, due to their lack of market role (Gow and Shanoyan 2010). This could imply that lead firms would be more capable chain drivers than non-profits. In response to these challenges, non-firm actors are beginning to work on their business capabilities. Helmsing and Knorringa (2009) have identified a new type of NGO emerging, with strong business expertise, complementing their community development knowledge. Indeed, many NGOs are increasingly recruiting managers from the private sector, and undergoing business training. These cross-sector organisations may be able to perform chain governance roles effectively both in terms of business acumen and upgrading for poor producers.

It could be argued that non-firm governance distorts markets. Muller et al. (2006) refer to the risk of these chains engineered by non-market actors not functioning according to regular market relations. Yet as discussed in section 3.1, non-firm interventions are often a response to a market failure and a chain governance deficit, created by the rollback of state involvement in trade. The academic concept of a perfectly competitive market does not exist in reality, meaning NGOs and development agencies can be justified in their coordination roles, in particular if they are able to bring about economic development which helps poor people (Dorward et al. 2005; Stoian et al. 2012). However, the effects of such interventions on the wider economy still need to be considered. Chains assisted by non-firm actors can create tough competition for those without assistance (UNIDO 2009). Also, focus on specific sectors can lead to doors closing for other sectors, which may be potential sources of economic development for a country.

4.2 Selection of chain actors: inclusion or exclusion?

In this section, I draw on evidence that demonstrates how the new non-firm governors are often using their power to include some actors in chains, while excluding others. As discussed in chapter 3, NGOs and development agencies often begin value chain development as a continuation of their existing work supporting the formation of smallholder cooperatives, with the aim of including small producers in global markets. This tradition of supporting farmers means many NGOs and development agencies maintain a loyalty to small producers’ interests
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

when supporting whole chains (Bitzer et al. 2009; Muller et al. 2006). Evidence of NGOs and development agencies using their power in chains to achieve the inclusion of small producers in global chains is widespread. USAID, for example, worked with the TNC Walmart to include 20 different smallholder crops in their Honduras stores, replacing imported vegetables (Painter 2009). The development agency provided selected lead farmers with technical support and market information, who then passed on this training to their peers. USAID worked with the lead firm to ensure it continued supporting and training the producers once the project was finished. Yet it appears there are no guarantees that smallholders will continue to be included in these chains by lead firms. For example, In a Kenyan cut flower chain coordinated by International Institute for Environment and Development (IIED), the supermarket buyer cut off its contract with producers after only a few weeks, claiming insufficient product quality (Buxton 2012). The implication is that while economic inclusion in chains is often achieved, in the sense that smallholders receive large orders from these lead firms, they are not included in chain decision-making, and remain easy to replace. In section 4.3 below, I discuss the efforts of non-firm actors to reduce such power inequalities in chains.

While achieving the inclusion of smallholders is important for many NGOs and development agencies, there appear to be a range of other actors that are not being included in chains. On the one hand this can be positive for disadvantaged chain actors. Traders, viewed as unnecessary intermediaries, are often excluded by NGOs, in order to maintain a higher share of profits for producers. For example, Drost et al. (2012) describe how smallholders are given the opportunity to meet buyers directly in stakeholder meetings organised by an NGO. Similarly, Coulter (2011) found that in an organic fair trade cotton chain in Burkina Faso, the NGO and farmer organisation are now directly liaising with buyers, thereby cutting out once powerful traders. Yet in other cases, exclusion of certain actors by NGOs can be questionable for the success of chains. Both Gomez (2010) in Venezuela, and Muller et al. (2006) in Ghana, provide evidence of NGOs excluding local firms from value chains due to them being too focused on profits, and not fitting the NGO’s social agenda. In the Venezuela chain, the NGO influence on the business culture of the chain continued through the fact that farmers were trained to become the NGO’s ‘businessmen’ (Gomez 2010). In some cases, NGOs may even be using their power to exclude smallholders from chains, if they break the rules. For example, van Wijk et al. (2009) cite a case of an NGO in Ghana which takes a strict approach with smallholder farmers, threatening exclusion from the chain if they do not respect their contracts. The only chain actor NGOs seem unlikely to attempt to exclude from a chain is the
lead firm, which is seen as holding the key to strong markets, and business success. While non-firm actors in these examples appear to be in favour of collaborating with a powerful lead firm, in the next section I explore ways in which they are, nevertheless, attempting to curb lead firm power.

4.3 From captive to relational chain governance?

In this section, I explore how non-firm governors are aiming to turn captive chains into relational chains by facilitating relationships between suppliers and buyers, and by working to empower disadvantaged chain actors. As identified in chapter 3, NGOs and development agencies in value chains strive to facilitate relationships between chain actors in order to foster interdependencies between suppliers and buyers, and in order to reduce power asymmetries and gain bargaining power for producers. To refer back to Gereffi, Humphrey and Sturgeon’s (2005) models of chain governance in section 2.2, many NGOs and development agencies are thus using the power they have gained over chains to turn captive governance, where producers are dependent on large buyers which hold great power over the chain, to more relational governance (Muller et al. 2006). Figure 6 below includes the interventions of non-firm actors in a diagrammatic representation of a captive and a relational chain.
NGOs consider themselves skilled in relationship-building as they are typically experienced in working with diverse actors (Helmsing and Knorringa 2009). A common approach involves organising and facilitating stakeholder meetings (Devaux et al. 2009; Drost et al. 2012; Gow and Shanoyan 2010; Morris 2001; Thiele et al. 2011). The reported benefits of bringing chain actors together in regular discussion are impressive. They include innovation in product development, processes, and ways of working together (Devaux et al. 2009; Thiele et al. 2011), enabled through collective learning, sharing and action (Drost et al. 2012). This in turn can improve the competitiveness of a chain (Gow and Shanoyan 2010). Gomez (2010) and Helmsing and Knorringa (2009) argue that NGO facilitation can foster a sense of collectivism, which can build trust, help overcome conflicts between actors, and ensure that transactions take place, due to a sense of shared responsibility for the chain’s success. Van Wijk and Kwakkenbos (2011), for example, report that in a sorghum-beer chain in Ghana, strengthened inter-actor relationships, due to NGO facilitation, led to the lead firm providing credit to other chain actors. This is evidence of higher trust within the chain, as the firm grew more confident about being paid back by producers. Yet such relationships need to be continually worked on (de Boer et al. 2009). Unless a sense of collectivism is maintained, actors may make decisions.

Figure 6: Remodelling Gereffi, Humphrey and Sturgeon’s (2005) value chain governance regimes – non-firm actors in captive and relational chains. Source: author.
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

based purely on their individual priorities, to the detriment of collective interests – examples of which are explored below, and some may even decide to exit the chain. If continued non-firm actor facilitation is key to maintaining strong relationships between chain actors, this may justify their interventions being permanent, contrary to the views expressed in most agency manuals reviewed in chapter 3.

If closer relationships between suppliers and buyers are achieved, this provides an opportunity for non-firm actors to work on their objective of empowering small producers and processors to negotiate better terms and prices. Nelen et al. (2012), for example, argue that NGO intervention in various cotton chains in sub-Saharan Africa has allowed farmer groups to begin to take charge of marketing their crops themselves. However, the NGOs continue to support the producer groups by providing market information and training in negotiation skills, which raises the question as to whether the term empowered is appropriate for producers that are seemingly dependent on NGOs. Other examples, such as the cases described by Gomez (2010) and Muller et al. (2006), report how NGO interventions have enabled producers to gain higher prices. Yet in all the chains they refer to, NGOs are either acting as intermediaries, or providing guidance on price negotiation from behind the scenes. Since we have established that NGOs often strategically collaborate with a lead firm to enable producers to benefit from large orders, there is a risk of NGOs not pushing the price negotiation very far in favour of producers, as they will not want to damage their relationship with the lead firm. In addition, lead firms are not likely to be transparent about their finances (de Boer et al. 2009), since their profit margins could be at risk of being undermined if figures were out in the open. Therefore, while NGOs are likely to be transparent about the finances of producer groups, producers are unlikely to know what margins are being applied by actors further up the chain, even where products or chains are fair trade certified (Muller et al. 2006). This asymmetry of information leaves producers, or their NGO representatives, powerless to negotiate the best deal.

In promoting the producer empowerment discourse, it is worth also considering consulting producers on what kind of power they would like to gain, and which responsibilities they are happy for others, such as NGOs or traders, to assume. Smallholders may be growing a variety of crops for different chains, as well as undertaking other income-generating activities to build up their livelihood portfolio, so may not want to take on an extended role within one value chain. Again, this suggests participatory approaches need to be further developed, in order to better understand different chain actors’ needs and perspectives.
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

Some lead firms may favour a shift to relational governance, since building trust between chain actors would mean they could be more confident that they could rely on producers to fulfil quality and quantity requirements. Also, collaborating with NGOs and development agencies, and demonstrating to the public that they are building long-term relationships with small producers is good for company reputation. Yet even if lead firms begin to improve their relationships with suppliers, this does not mean they are necessarily relinquishing any of their power over chains. Even in chains where NGOs are working to improve relationships, lead firms often still maintain their strong power positions, while producers remain passive. To illustrate this point, Van Wijk et al. (2009), describe how in the three chains they studied, lead firms – in these cases a supermarket, a brewery and a garment retailer, determine how the chain functions and what it produces. NGOs are able to have some influence over lead firms’ decisions, but in all cases except the cotton-garment chain, farmers are not involved in these discussions (van Wijk et al. 2009). This strong lead firm power, and weak producer power, means decisions are often made that are to the detriment of farmer livelihoods. For example, in three of the four sorghum-beer chains studied by van Wijk and Kwakkenbos (2011), the NGOs agreed to the TNC requirement that farmers buy new seeds each year rather than saving the previous season’s, claiming crop quality was better – thereby increasing farmer input costs. The fact that the NGOs are supporting lead firms making decisions to the detriment of small producers may make it difficult for farmers to trust the NGOs that claim to be supporting them.

Another example concerns contract length. Although one objective of improving relationships between chain actors is to establish long-term trading relationships, there is evidence that many lead firms are maintaining their power to easily switch suppliers. Bitzer et al. (2009), for example, found that most farmer groups in the 14 fair trade coffee chains studied had short-term contracts with buyers which were renewed annually. In the three chains studied by Muller et al. (2006), farmers were not even officially included in contracts - rather these were signed between the NGOs and TNCs, implying that particular farmers could be excluded at any time. Without secure contracts with lead firms, producers remain vulnerable, and powerless to influence chain strategy. This evidence suggests that, while non-firm interventions may be achieving stronger relationships between producers and buyers in some cases, on the whole the chains remain buyer-driven.
The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies

Even social and environmental codes and standards promoted by NGOs may be promoting sustained lead firm power. As seen in chapter 2, standards such as fair trade have become popular among TNCs, meaning NGOs are now seizing the opportunity to access larger markets through these big buyers. Bitzer et al. (2008), for example, in their study of 12 fair trade coffee chains, found that in each case, the NGOs supporting the producers formed agreements with TNCs, deciding which certification schemes to be implemented at the outset. Here, Western NGOs and businesses are setting the rules for producers to follow, making these chains to some extent both buyer-driven and NGO-driven. Producers appear to be excluded from decision-making, and are dependent on a small number of international buyers, making them vulnerable to market shocks. It could be argued that the NGOs are helping TNCs continue to ensure smallholders remain powerless, rather than achieving their initial aim of improving the position of farmers through fair trade.

4.4 Towards collaborative cross-sector chain governance?

Evidence provided in this chapter has shown that although non-firm actors can be seen to be gaining power over chains through taking on governor roles, lead firm power typically remains strong. Non-firm actors and lead firms, therefore, are two significant forces of power in chains. Lead firm and NGO coordination roles in chains can be complementary (Gow and Shanoyan 2010), described by Muller et al. (2006) as a push by NGOs, and a pull by lead firms. Lead firms are able to provide market expertise and pressure, complementing NGOs’ focus on inclusivity, fairness and closer relationships. Yet Stoian et al. (2012) describe how firm and non-firm actors often work in isolation from each other to upgrade the same chain. Potential gains in efficiency and chain competitiveness could be achieved if these two types of governors collaborated, to co-govern chains. Co-governance differs from existing cross-sector partnerships between NGOs and lead firms working to upgrade chains, as these tend to address only one factor, such as access to technology, capital or markets (Bitzer et al. 2009).

A number of authors touch the idea of collaborative chain governance, arguing the need for new institutions that can govern chains. Thiele et al. (2011) promote the idea of a multi-stakeholder platform as a new institution, that combines capacities and expertise from different sectors in order to govern chains more efficiently than a single actor could. Drost et al. (2012) also describe how the collaborative nature of multi-stakeholder partnerships encourages the formation of new institutions, which can define new rules and practices for improved chain functioning. Figure 7 below illustrates how two key holders of power in chains
a global brand as a lead firm, and an NGO or development agency, could simultaneously govern a chain, taking on similar roles to each other, and collaborating in the delivery of these roles.

Further investigation, and even experiments, on this idea of cross-sector chain governance are needed, to find out whether it can offer a long-term solution. Chain governance institutions or multi-stakeholder platforms must provide evidence of their ability to successfully build, maintain and upgrade value chains. Lead firms, or value chain-oriented NGOs, may not be willing to share power over chains in this way, and it may be difficult to agree on allocation of responsibilities. There are likely to be conflicts of interest, with NGOs and development agencies favouring better conditions and improved incomes for small producers and processors, and lead firms focusing on cost-cutting, efficiency, and adapting to markets. Helmsing and Knorringa (2009) note the historical lack of trust between the private sector and NGOs, which needs to be overcome if power is to be shared. In agro-commodity sectors, the growing corporate interest in biotechnology, which is being promoted as a way to ensure global food security facing climatic changes, is an issue NGOs and development agencies will need to consider or reconsider their stances on, if they are to continue to collaborate with TNCs. Nevertheless, NGOs and development agencies are increasingly resigning to the fact that corporate power is hard to tackle, and brings market access and expertise to a chain.
firms are bowing to consumer pressure to develop their CSR strategies. Therefore, some form of collaborative governance may be a likely compromise for many chains.

5. Conclusion

The VC4D trend reflects a broader trend in focusing on markets as a path to development, and is seen as an opportunity to attempt to make trade fairer by supporting the interests of poor producers and processors in developing countries. In terms of approaches, tensions have been identified relating to whether planning should be top-down or participatory, whether NGOs and development agencies should cross the line from a chain facilitator role to a chain coordinator one, whether they have the capacity to undertake a market-driven approach, and which chain actors to support.

Chapter 4 has provided the principal findings of this paper, through an in-depth analysis of the effects of NGO and development agency interventions in agro-commodity chains, using evidence from a broad range of published studies. Firstly, NGOs and development agencies are in many cases becoming the new value chain governors, gaining power over chains themselves. Secondly, NGOs and development agencies are using this power to influence who participates in chains – working to include small producers, but also to exclude firms that do not fit their development agendas. Thirdly, in promoting strong relationships between chain actors, NGOs and development agencies are aiming to shift chains from captive to more relational governance, in order to increase the bargaining power of disadvantaged actors lower down the chain. However, lead firm power tends to remain strong, despite, and sometimes because of, non-firm actor interventions. These findings indicate that NGO and development agency governors may begin to collaborate with lead firms to co-govern chains in a permanent way, rather than to temporarily fill a governance deficit, yet potential conflicts of interest need to be considered.

I now unpack some of the implications of my findings regarding the effects of non-firm interventions on value chain governance, and make recommendations for further research and professional practice. The key themes inherent in these findings are contradictions rather than clear-cut conclusions. For example, NGOs and development agencies are typically working to empower small producers in chains, yet are ending up gaining power over chain strategy themselves, while producers remain dependent on their support. Attempts to lessen lead firm
power appear to be failing, in the context of a new focus on directly collaborating with lead firms, plus the corporatisation of standards such as fair trade. Therefore, important questions are raised about the legitimacy of current approaches to value chain development, both in terms of how non-firm actors are changing market relations, and in terms of their capacity to undertake effective pro-poor market development.

How agro-commodity chains are governed has important broader implications for livelihoods, for countries' economic development, and for global food security. This paper does not suggest that NGOs and development agencies should not intervene in chains, as there is often a governance deficit to be filled, and sustainability goals need to be integrated into market development. Nevertheless, as a result of this analysis, I propose a number of recommendations for value chain development practitioners. Firstly, greater business understanding and expertise is needed among NGO and development agency practitioners, if they are to be involved in decision-making about chain strategy, which actors are to be included, or which codes and standards to be followed – including reflection on whether to promote niche certified markets or mass production to satisfy growing demand for agricultural products. In order to legitimise non-firm actors taking on coordination roles in chains, further efforts are needed to sustain or gain the trust of chain actors, for example through participatory chain analysis and planning to take into account all views. This may reveal a preference among producers to develop several chains simultaneously, including domestic chains, rather focusing on a single crop. Producers and small processors need to be involved more in decision-making, in order to begin to meet the empowerment goal. Greater support is needed for small processing firms in developing countries, rather than just for producers, in order to ensure added value stays in country. In terms of curbing TNC power, establishing long-term contracts between producers and lead firms, or exploring alternative marketing channels for smallholder products that do not depend on TNCs may be potential options. Overall, more in-depth impact assessment of VC4D projects is needed, to provide learning on best practices. Chapter 3’s review of approaches to chain development has shown a number of similarities between agency approaches. Therefore, establishing networks for effective sharing of learning would benefit chains in different parts of the world.

In terms of future research, a number of gaps to be filled have been highlighted by this study. In general, further research is needed on specific cases of NGO and development agency interventions in agro-commodity chains, to potentially confirm, and build on, my findings.
More specifically, investigation is needed into how NGOs and development agencies view their own roles in chains, and how chain actors view these non-firm actors’ interventions, in order to build on debates regarding legitimacy. Building on the large body of research on cross-sector partnerships relating to standards and CSR, studies, possibly through action research, on the feasibility, benefits and limitations of cross-sector co-governance of whole chains are needed.

References


Altenburg, T., 2006. Donor approaches to supporting pro-poor value chains. German Development Institute, Bonn.


The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies


The effects of non-firm actors’ interventions in agro-commodity value chains on chain governance: the case of NGOs and development agencies


