World Development 103 (2018) 162–175

Contents lists available at ScienceDirect

World Development

journal homepage: www.elsevier.com/locate/worlddev

Procedural Justice in Value Chains Through Public–private Partnerships

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ARTICLE INFO

Article history:
Accepted 8 October 2017
Available online 22 November 2017

Key words:
public–private partnerships
value chain governance
procedural justice
farmer agency

SUMMARY

This paper is about making agricultural value chains work for smallholder farmers, and the way that governments can achieve this aim through public–private partnerships (PPPs). Applied to agricultural value chains, PPPs seek to catalyze new investments, support chain upgrading, or improve the performance of poorly functioning chains through joint activities that capitalize on the complementary resources and competencies of public and private partners. Smallholder farmers are frequently the intended beneficiaries. However, there is little understanding of how the terms of value chain participation affect farmer perceptions of and behavior within chains, or the role of the public sector in influencing these arrangements. This paper analyzes in-depth case studies from Ghana, Indonesia, Rwanda, and Uganda to better understand a surprising empirical finding: that farmers that experience strong PPP results in terms of productivity and incomes may nevertheless remain dissatisfied, while those experiencing much more modest gains can view the PPP favorably. At the heart is an analytical framework based on five attributes of "procedural justice". It finds that public sector actors, through PPPs, are able to shape governance within value chains, influencing the relative skills, knowledge, and resources which different actors possess, the way that farmers are organized to engage in the value chain, and the attributes of procedural justice reflected in chain arrangements. Where procedural justice is weak, farmers are more likely to exit or neglect the arrangements, leaving the value chain underperforming with sub-optimal outcomes for all: for farmers, for lead firms, and for government agencies. Government involvement in value chains should be premised on facilitating relationships that are more procedurally just than those which would be expected to arise through the market alone.

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1. Introduction

This paper is about making agricultural value chains work for smallholder farmers, and the way that governments can achieve this aim through public–private partnerships (PPPs). Agriculture has traditionally been dominated by market arrangements involving many farmers and many buyers of undifferentiated commodities. Since the 1980s, however, the sector has changed dramatically. New corporate strategies, changes in regulation and standards, greater competition, and changing consumer demands have meant a higher degree of explicit coordination such that these loose trading relationships have been replaced by tightly structured "value chains" that spatially link farmers and firms (Dolan & Humphrey, 2004; Gereffi, Humphrey, & Sturgeon, 2005; Gibbon & Ponte, 2005; Lee, Gereffi, & Beauvais, 2012). The result has been the emergence of networked forms of value chain governance arrangements which are neither arm's length markets nor characterized by vertically integrated corporations, but in which "lead firms" exert varying degrees of power to explicitly coordinate production (Gereffi *et al.*, 2005).

Partnerships that engage companies in development cooperation are part of a recent trend toward private sector development and market-based approaches to poverty reduction (Humphrey, Spratt, Thorpe, & Henson, 2014). Spending by members of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee through public–private mechanisms, for example, rose from US$84.8 mn in 2005 to US$671.4 mn in 2015 (OECD, 2016). These include public–private approaches to boost agricultural investment that enables smallholders to access new value chains and derive greater benefits from chain participation. However, the findings in this paper suggest that investment alone is insufficient to achieve these outcomes. The arrangements facilitated by the PPPs and the value chain relationships they catalyze also matter.

The empirical work that underpins this paper was carried out within the project "Enabling Factors for Public-Private Partnerships in Agriculture", supported by the International Fund for

https://doi.org/10.1016/j.worlddev.2017.10.004
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Agricultural Development (IFAD) during 2014-15.[1] Four case studies in Ghana, Indonesia, Rwanda, and Uganda were developed, identifying enabling factors for agricultural value chain PPPs and outcomes for smallholder farmers. While the PPPs all supported productivity increases with benefits for households and communities, productivity was negatively affected by farmer failure to implement new production techniques or apply new inputs as expected. More surprisingly, farmers in the PPP with the strongest achievements (in terms of productivity and farmer incomes) expressed dissatisfaction with the arrangements, while farmers experiencing much more modest gains were more positive. This unexpected result prompted a systematic re-analysis of the case evidence to understand how value chain arrangements that strengthen farmer satisfaction and commitment can be catalyzed by PPPs.

The paper draws on theoretical insights from three fields: value chain governance, inter-organizational behavior, and PPPs to analyze the case evidence. It asks:

- What aspects of agricultural value chain performance influence farmer perceptions and commitment?
- What are the arrangements within agricultural value chains that influence this performance?
- How can the public sector influence these arrangements through PPPs?

2. Agricultural value chains and public–private partnerships

(a) *Agricultural value chains and smallholder inclusion*

The global value chain literature analyzes chains of spatially connected activities to bring products that consumers, including the character of inter-firm linkages, the role of institutions in coordinating activities, and the distribution of power in the chain. The chain is governed by a "lead firm" which sets and enforces terms of participation, directs the allocation of resources and coordinates chain activities related to prices, standards, inputs, or processes used (Gereffi *et al.*, 2005; Ponte & Gibbon, 2005). The lead firm determines how rewards are distributed in the chain and the prospects for firms to upgrade through better products, processes or higher value activities (Henson, 2011; Humphrey & Schmitz, 2002; Ponte & Gibbon, 2005; Sturgeon, 2008).

Gereffi *et al.* (2005) identify five governance types: market, modular, relational, captive, and hierarchy; representing a spectrum in the explicit coordination and power asymmetry between lead firms and others. For example, market governance involves arm's-length relationships between many suppliers and buyers, where the product is standardized and the cost of switching to new partners is low; relational governance involves interdependence between the supplier and lead firm, with a high degree of interaction and explicit coordination, where the cost of switching to new partners is high for both parties; while in captive governance, the supplier's output is dominated by the lead firm to meet its requirements, often under a high degree of control which limits the likelihood of suppliers acting in an opportunistic way.

Through agricultural value chains, smallholders have been increasingly integrated into the global economy, and lead firms have increasingly shaped farm-level activities. Multi-national supermarkets and manufacturers have penetrated upstream and many smallholders have become transactionally dependent on these companies and beholden to international public and private standards (Dolan & Humphrey, 2004; Neilson, 2008; Tran, Bailey, Wilson, & Phillips, 2013). Farmers often benefit from access to markets and technical guidance for process or product upgrading, but through arrangements designed to reduce opportunistic behaviors (e.g., side selling) and with limited potential for functional upgrading (e.g., into higher value processing) (Fitter & Kaplinsky, 2001; Neilson, 2008). While specific opportunities and constraints are often contingent on context-specific arrangements (Bain, 2010; Harvey, 2007; Lee *et al.*, 2012; Staritz, Gereffi, & Cattaneo, 2011; Tran *et al.*, 2013), small-scale farmers in developing countries are commonly either drawn into highly unequal relationships of dependency or are marginalized from more lucrative market opportunities (Dolan & Humphrey, 2004; Fitter & Kaplinsky, 2001; Maertens & Swinnen, 2009; Schmitz, 2006; Tran *et al.*, 2013).

(b) *Public–private partnerships and agricultural value chains*

The study of global value chains arose in the context of the "retreat of the state" (Strange, 1996) and its preeminent concern is lead firm chain governance. However, a small but growing number of papers now draw attention to the "(re) insertion of the state" (Adolf, Bush, & Vellema, 2016: 79) and its influence over value chains in developing countries (Adolf *et al.*, 2016; Bitzer & Glasbergen, 2010; Gereffi, 2014; Vellema & van Wijk, 2015). Research on "Global Production Networks", which shares many conceptual features with value chain analysis, also sets analytical boundaries that include states and other actors such as civil society, consumers, and labor organizations (Coe, Dicken, & Hess, 2008; Henderson, Dicken, Hess, Coe, & Yeung, 2002). In agriculture, national governments regulate firms and farmers, while also enabling or constraining farmer upgrading through the institutional, legal, and infrastructural environment they create, which affect, *inter alia*, the ease of trade, the potential for product aggregation, the flow of information, and access to resources (Neilson, 2008; Tran *et al.*, 2013; Trienekens, 2011; Vieira, 2006). However, significant questions remain about the degree to which public and private interactions can be coordinated; their respective roles, responsibilities, and resources (Macdonald, 2007); and whether and how states can use value chains and lead firms to reinforce public policy goals (Adolf *et al.*, 2016; Vellema & van Wijk, 2015).

Public–private partnerships (PPPs) are one response to coordinating public and private resources toward a common goal. "PPP" has been used to refer to a wide range of relationships without a common definition. For this study, they are defined as arrangements between companies and governments based on shared goals (although generally different underlying interests), which seek to capitalize on different but complementary resources and competencies (Bitzer & Glasbergen, 2010; Bitzer, Glasbergen, & Arts, 2013), through jointly planned and executed activities. Specifically in agricultural value chains, PPPs seek to catalyze new investments, support chain upgrading or improve the performance of poorly functioning chains by addressing market and governance failures (Narrod *et al.*, 2009; Poulton & Macartney, 2012). Smallholder farmers are frequently the intended beneficiaries, where PPPs create pre-conditions for farmer inclusion, and improved incomes and well-being (Bitzer *et al.*, 2013), although other goals such as employment generation, improved nutrition, or import substitution may (also) be sought.

The evidence base of agricultural value chain PPPs is limited. There are few detailed, independent, impact evaluations (Gregoratti, 2011; Kolk, van Tulder, & Kostwinder, 2008; Poulton & Macartney, 2012; Rein & Stott, 2009), and the relative newness of many partnerships (Poulton & Macartney, 2012) is an additional impediment. Where evidence is available, it suggests that PPPs do counter the tendency for high value chains to marginalize smallholders (Abdulsamad, Stokes, & Gereffi, 2015; Bitzer & Glasbergen, 2010; Narrod *et al.*, 2009) by supporting human capital development and knowledge transfer, or investments in infrastruc-

[1] www.ids.ac.uk/project/public–private-partnerships-ppps-in-agriculture-enabling-factors-and-impact-on-the-rural-poor (last accessed December 30, 2016).

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