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**How to value chains for
local development**

Erasmus

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Valedictory Lecture

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Introduction

World trade and production are increasingly structured around what are known as “global value chains”. A value chain can be defined as the full range of activities to bring a product from its inception to its end use. It includes stages such as design, production, marketing, logistics and distribution, support to the final consumer and recycling. These activities can be performed within the same firm. In his theory of competitiveness Michael Porter has argued that a firm can generate value in all stages but can also focus on those stages in which it excels and leave other stages to other firms. Thus, activities can also be divided between different firms. If these are spread over more countries the value chain is regarded as global (GVC).

The increasing importance of global value chains means that a firm’s competitiveness depends on efficient sourcing of inputs as well as access to related producers and final consumers. It also implies increased fragmentation of activities over geographically dispersed activities. The international division of labour is then organised around tasks or business functions located in particular countries, in stead of countries being specialised in entire product chains. As a consequence countries compete on their economic role in such chains.

The OECD has developed new ways of measuring the importance of GVCs (de Backer and Miroudot, 2014). They constructed a new index using an intercountry input-output table for 58 countries and 37 industries. Together these account for up to 90% of global trade. The index expressed as percentage of gross exports may be as high as 60 for the Netherlands, around 65 for the Philippines, almost 50 for China, 40 for Cambodia and slightly over 30 for South Africa (De Backer and Miroudot, 2014: 52, figure 1.2). The authors also show that the average length of value chains has increased but varies considerably by type of industry. It is highest for sectors such as TV and communication equipment and the motor vehicle industry but much lower for personal service oriented industries. The authors conclude that “On average more than half of the value of exports is made up of products traded in the context of GVCs” (ibid, 2014:56)

What applies to countries applies even more so to local economies within countries. The processes of economic restructuring on a global scale have made local economic development much more volatile. Local economies seek to retain local activities while making use of new opportunities. They struggle between specialization to realize economies of scale to be able to compete in international markets and diversification of economic activity, in order to spread the risk of being too specialised.

Given increased global competition and the pressure on prices, one way to avoid a ‘race to the bottom’ would be to extend and improve the participation of local producers in ‘their’ value chain. GVC theory holds that the governance of the chain shapes opportunities for upgrading by local producers. This has been a powerful argument for a rapid popularization of the concept in development oriented interventions. The positive message of the upgrading thesis also became a guide for local economic development. How can GVCs be deployed to promote local economic development (Helmsing, 2003, Schmitz, 2004; Rogerson, 2010). It became a key complement to cluster policies, which had ignored the external nexus of these clusters to the global economy (Humphrey & Schmitz, 2002, Helmsing, 2000).

Nowadays there are quite a number of manuals that guide development practitioners to apply value chain analysis to design development interventions. A recent review identified a total of 32 manuals (Nang’ole, 2011). These are prepared by development oriented NGOs (such as Catholic Relief Services or Practical Action), but mostly by donor agencies (such as FAO, DfID, USAID, ILO, IFAD, the Swiss SDC and GTZ) and the World Bank (Henriksen et al, 2010) and also by knowledge institutes (KIT, DIIS, CIAT, IIED, IIRR

and IDRC). There are also several thematic VC manuals, notably related to gender (KIT, WISE and OxfamNovib). More recently the AgriProfocus launched its firm-farmer relations manual. Last but not least the Donor Committee on Enterprise Development, which has an important function of inter-agency knowledge exchange, has an elaborate website on value chain development interventions ¹ (<http://www.value-chains.org/dyn/bds/bds2search.home2>).

These manuals pursue development goals which vary in accordance with the development mandate of the organization concerned. They have in common that they mostly limit themselves to the chain itself and the coordination between the different segments in the chain. However, the manner in which the value chain connects to a local economy is not only shaped by relationships within the chain but also by the context in which the chain has 'touched down' and become embedded in the local territory.

In the early years VC analysis focussed on the lead firm which shaped the governance of the chain and the central question was 'what conditions of value chain structure and of its governance would be most conducive to local firm upgrading'. This received an additional impulse with the so-called 'supermarket revolution' which focussed attention on food and vegetables. In the last ten years the attention has shifted to the role of standards and their implications for upgrading. The important difference was that standards could also be introduced by others, for example NGOs, as in the case of Fair Trade. Nowadays there are many different kinds of standards by which NGOs try to influence the behaviour of lead firms and in that way seek to contribute to development goals in the area of poverty, gender, environment or economic development.

For me personally this shift brought the study of value chains closer to a parallel field in which I had become interested over the past years, namely evolutionary institutional analysis. Value chains can be seen as a set of institutional arrangements or rules. These arrangements define the terms of participation of each actor in a chain, and by implication what value gets appropriated where in the chain. This makes VC analysis a field 'par excellence' for institutional analysis. What explains these institutional arrangements and how do they facilitate or inhibit upgrading? In GVC theory the discussion is limited to the governance of the chain and the nature of the transactions between firms including the capacity of the supply base (Sturgeon, 2001). That is to say the discussion focussed on what are essentially the bi-lateral relations between firms within the domain of the chain.

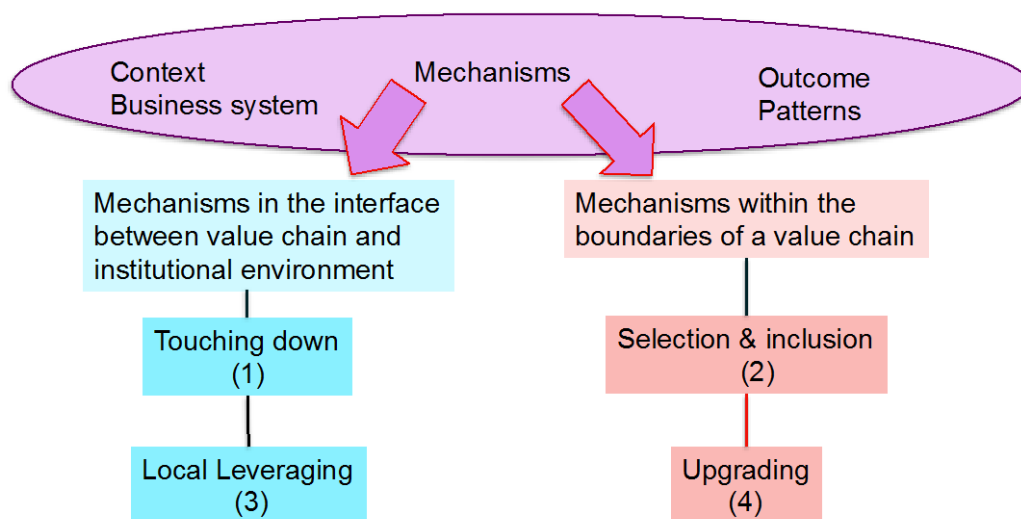
Bringing these two fields (GVC theory and the study of institutions) together also presented me with a global - local paradox. GVC theory suggests that the organization of GVCs is primarily defined by global firms that have the ability to reorganize inter-firm relations on a global scale. This suggests that upgrading in GVCs is a top-down discourse. It is used as an almost universally applicable framework. However, most institutional analysts realize that institutions are strongly path dependent and are embedded in the territory at different scales. Pre-existing local institutions mediate the translation of these institutional arrangements to behaviour and relations between actors in the local economy. So how can these two ontologies come together?

The opportunity to study this came several years ago when together with Dr Sietze Vellema I directed a research project, funded by the Development Policy Research Network (DPRN). This project, was entitled "Value Chain Governance and Endogenous Economic Growth: How can NGOs, Firms and Governments achieve inclusion and poverty reduction?". It brought together academics, NGO practitioners, government officials and private sector actors in a multi- and transdisciplinary setting. I will not go into the details of this project or the events and debates it generated. The most important academic output of the project was a book co-edited by Helmsing and Vellema (2011a), entitled 'Value Chains, Social Inclusion and Economic Development', published by Routledge.

In the synthesis report prepared at the end of that project we formulated a Knowledge Agenda. In this document we made an attempt to elaborate how global value chains interact with local institutions in order to produce certain context specific developmental outcomes. We identified four processes that describe a pathway leading to such outcomes.

Below I will describe the meta-framework, which is depicted in Figure 1. In subsequent sections, I will elaborate on each of these four processes and present further thoughts from an institutional perspective. In the presentation of this lecture, I will especially focus on two detailed case studies in which I have been personally involved over a number of years, one in Northern Uganda on the participation of small producers in a newly created honey chain and the other one in the North of Peru which involved asparagus exports (Helmsing and Enzama, 2016). Below I draw on the growing body of literature. I will limit myself to agro-food chains.

Figure 1
A meta-framework for the analysis of developmental outcomes of value chain related interventions



Enzama

Source: Helmsing and Vellema, 2011b:8

As shown in Figure 1, two processes relate to the articulation of value chain dynamics with contextual dynamics in the territory and two processes are situated within the boundaries of a value chain. The two processes on the left hand leg are rarely developed in the VC intervention manuals I referred to above.

In terms of a logical sequence, process (1) depicts the 'touching down' which concerns the interactions between a (new) value chain and the business system in which it operates or intends to operate; process (2) is restricted to the dynamics within the chain that defines

the terms of selection of areas and inclusion of local producers; process (3) is about 'leveraging' interventions and resources of the chain in order to endogenize its development locally; the fourth process concerns prospects for 'upgrading' of local producers.

One of the consequences of the arguments developed within the framework is that a strong focus on only standards and compliance with them, captured under the process of upgrading, is only one piece of the puzzle, and from a developmental perspective it may not be the most significant one despite the developmental intentions included in many standards.

But before elaborating on this framework, I would like to end this introduction and outline briefly where I stand in relation to evolutionary institutional analysis.

Institutional analysis: an eclectic positioning

In development studies the recognition of the role of institutions is a relatively recent phenomenon. It started in the late nineteen eighties and especially the nineties with the work of North, Williamson and Ostrom and later Rodrik and many others. Since then there has been a veritable explosion in literature on institutions. Ménard & Shirley (2014) present a graph based on the Econlit database to record the number of publications on property rights, contracts and transaction costs, which are the dominant themes in NIE. The graph shows the rapid growth in volume in the nineties and even more so in the past 10 years.

There has been a proliferation of concepts and ontological perspectives in various disciplines and a lot of energies has been spent on stressing disciplinary differences and opposing views (Hodgson, 2000, 2007, Brousseau, 2011, Kingston & Caballero, 2009, Ménard and Shirley 2014). Institutional analysis is by no means an easy task as there is a lack of general accepted definitions, a well developed nomenclature of institutions does not exist² and there are challenges about ways and means to measure their effects³.

Williamson stated that as long as we "await a unified theory, we should be accepting pluralism in order to overcome ignorance" (Williamson, 2000:595)⁴. More recently, Campbell (2004) argued that institutional analysis finds itself in a second wave in which there are more efforts towards convergence and building bridges between different perspectives without still coming close to a unified interdisciplinary theory⁵.

In terms of my own perspective I depart from the following. Firstly, institutions are not only rules, practices and norms that are constraining human behaviour (as stated by the 'early' North, 1991 but institutions also enable or guide behaviour (Hodgson, 2006). There is a ready acceptance that economic institutions need not be economically efficient. Certainly in development studies there is a wider acceptance of the historical institutionalist and political economic views that political institutions shape the process of change of economic institutions (Chang, 2002; Acemoglu & Robinson, 2012, Bohle and Greskovits, 2009 and Hall and Thelen, 2009, Khan, 2010); furthermore that economic institutions are embedded in deeper social institutions.

The overall social structure and its associated distribution of power as well as vested interests in existing institutions shape the direction of institutional change. The politics of institutional change therefore become more important (Chang, 2002; Khan, 2010) as does the role of institutional entrepreneurs, social acceptance and the power of new ideas (Campbell, 2004).

New institutional economics studied in particular property rights and contracts in relation to transaction costs, but nowadays a wider array of institutions is being studied (Ménard & Shirley, 2014). Moreover, the analysis is not only limited to formal institutions

but the interaction between formal and particular types of informal institutions has also become a focus of attention.

In a similar vein, Leftwich & Sen refer to a broader set of formal economic institutions that “define and protect property rights; determine ease or difficulty and time to start a business, facilitate exchange and promote and regulate organized coordination and competition” (2010:17). Informal institutions “include norms and conventions and traditions which govern the access to opportunities between genders and social groups or which embody the rules which facilitate the cooperation between some groups while excluding others” (ibid).

There has been a tendency to study the effects of one or other particular (formal) institution in the institutional environment on economic growth without recognizing the nestedness or interdependence of institutions (Maseland, 2011). Additionally Chang (2010) argued that the reverse causality should not be ignored: that is the effects of a particular pattern of economic development on institutional change.

There is also a greater recognition that “institutions rule but they do not reign” (Leftwich & Sen, 2010). They need to be maintained and enforced. For the study of institutional change it is therefore essential to examine the role of individuals and organizations (Scott, 2001). Of special interest to us is the study of organizations that seek to advance different kinds of collective interests. These are important actors that ‘play the game’.

There is an ongoing debate between two opposing views of institutional change, namely collective choice theories of centralised or hierarchical processes of institutional design and evolutionary theories of decentralised processes of institutional change. In the second wave, referred to above, analysts ask under which contextual conditions one approach may be more appropriate than the other (see Kingston & Caballero, 2009 or Campbell, 2004). This is further enhanced by a relational view of institutions whereby institutions are not independent of time and place specific meanings. They are embedded in local social institutions. Parallel to this and for our purposes it is important to distinguish between processes of institutional change that are driven by external actors, factors and forces and those that emerge endogenously (Brousseau & Raynaud, 2011; Campbell, 2004).

Incrementalism and path dependence play an important role in evolutionary institutional analysis. This is not only explained by institutional nestedness or layering, but also by a better understanding of the link between institutions and behaviour and by studying the behaviour of institutional entrepreneurs and organizations. Concretely this refers to habituation and downward reconstitutive causation (Hodgson, 2006, 2007) and to processes of institutional bricolage and institutional translation (Campbell, 2004).

To end this introduction, it is important to stress that I do not have the intention to give an overall verdict on value chain development interventions, on their effectiveness in promoting smallholder participation or on the overall development impacts. Our main aim is to make a plea for a better understanding of the institutional dimensions of value chain interventions which goes beyond the confines of the chain itself.

As regards overall effects, Dolan et al. as early as 1999, when examining fresh vegetable exports from Kenya and Zimbabwe to UK supermarkets, concluded that such exports have to meet exacting requirements. Additional requirements on social and environmental standards have tended to further concentrate the supply base. The difficulties of entering the UK market marginalised small producers (1999:37).

Minten et al, (2009) arrived at an opposite conclusion for small contract farmers in Madagascar. Almost 10,000 farmers in the Highlands of Madagascar produce vegetables for supermarkets in Europe. They have higher welfare, more income stability and shorter

lean periods and there are significant effects on improved technology adoption, better resource management and spill-overs on the productivity of the staple crop rice.

Clearly not all small farmers who tried did also succeed over a longer period. There are very few studies, which examined participation over time. In my own research in Peru I examined the activity status in 2008 of all would-be small farmers of an NGO project since 2000. I found a 'success rate' of 35% (Helmsing, 2013, 2016).

Mohan (2016) found that upgrading could well occur but also with immiserising growth. "Immiserising upgrading can be defined as a strategy of a value chain actor which targets improvements in a chain governed livelihood factor (such as market power, position or price) yet has adverse implications on other livelihood factors (such as gender, productivity or risk) such that the net result of the strategy is worsened welfare"(2016:62).

In a major review, Reardon et al (2009) came with a nuanced assessment. Participation is beneficial to small farmers. But the authors also conclude that rapid agro-food industry restructuring and procurement modernization induces companies to source from larger farms and avoid small farmers in scale-dualist settings. But they *do* source from small farmers if these dominate the agrarian structure. Nevertheless, firms are selective in sourcing only from those small farmers who meet their requirements. For the latter, government programs continue to be important.

Process of touching down

We defined the touching down process as the interaction between the logics and institutions of a (new) value chain and those found in the business system in which it operates or intends to operate (Helmsing and Vellema, 2011). Here we reason from the common assumption that the chain comes from outside and 'lands' in a particular territory. Less frequent in the literature is the elaboration of the emergence of a local chain from within a local territory.

The interaction between firms and the local institutional environment can be examined with theories concerning comparative capitalisms, which focus on institutions of economic coordination. The central premise here is that firms need competencies to meet particular competitive challenges. These competencies can be obtained in a variety of ways: they can be created inside the firm or acquired externally, e.g. buying these services from other firms, or acquiring other firms with such competencies. Alternatively, firms may coordinate outside the market and develop these competencies through joint or collective action. Last but not least and in order to face industry wide challenges firms may engage the state to provide these through industrial policy. The institutions that permit strategic coordination between firms and between firms and the state form the institutional basis of comparative advantage. The key point is that such institutions are formed in a path dependent historical process and this may vary considerably between countries.

This territorial dimension of comparative advantage and competitiveness has been recognised in theories of competitiveness (Porter, 1980, 2003; Kitson *et al*, 2004) and by evolutionary growth economists such as Nelson, (2002, 2007). This perspective is in contrast with the more 'disembedded' neoliberal view, which argues that a basic (and uniform) set of institutions, such as property rights, constitute a growth enhancing business environment. In the real world, the business environment is a much more complicated mosaic of formal and informal institutions.

This complex of institutions and state and business organizations we call a business system. The business system sets the basic parameters within which a (new) value chain can operate and determines the room to manoeuvre which chain-specific actors have vis-à-vis non-chain actors, in particular the (local) state and domestic business groups and existing forms of business associations, either formal or informal. The business system is not a given or a datum. Firms that seek to establish a new value chain will actively interact with that business system environment and try to influence it to their own advantage.

In relation to the institutional foundations of comparative advantage, I would like to highlight two strands of literature. The first started with the work of Hall & Soskice (2001) on Varieties of Capitalism (VoC), and the second are the contributions of Richard Whitley on business system theory (Whitley, 1999). VoC theory is firm centred and in its initial conception leaves out the state. The business system theory looks at both state and firms (Whitley, 2001; Lefwich & Sen, 2010). More recently there have been attempts to integrate the two (Morgan, 2007; Hall and Thelen, 2009).

According to Hall and Soskice (2001) the above mentioned coordination problems are notably found in the areas of industrial relations (e.g. wage bargaining and working conditions and productivity levels), vocational training and education (and how to secure an adequate skills base for workers), in corporate governance and investor relations, in inter-firm relations (with suppliers, buyers, state, communities and other social actors) and, lastly, in the area of employee relations (to ensure employee commitments to the firm's goals). Do institutional structures at national level enable firms to successfully resolve these coordination problems? The authors argue that institutions shaping strategic interaction in these areas co-evolve with corporate behaviour and strategy. In their book, they elaborate on two basic institutional settings, namely the liberal market economies (LME) and the coordinated market economies (CME). Markets and hierarchies are the principal institutions in liberal market economies, while firms in coordinated market economies draw on a further set of institutions and organizations to deal with strategic coordination, notably business associations and unions, as well as through cross-shareholding and interlocking directorships and other forms of information sharing and collaboration. Institutional complementarities reinforce path dependence of a particular system. The reason being that complementarities between institutions yield increasing returns. This results in institutional isomorphisms of more or less coherent national systems⁶.

Whitley's work on the business system framework was originally designed to explain the major differences in economic organization between Japan, South Korea, Taiwan and Hong Kong and how these differences can be traced back to pre-industrial institutions and their specific patterns of industrialization (Whitley, 1999). In a later work the author sought to extend the analysis to emerging economies in the South (Whitley, 2001). Key differences with Hall & Soskice are that Whitley allows for different institutional set-ups of firm as organisations and elaborates the institutional structuring in which the state plays a prominent role.

As regards the institutional structuring of a business system, Whitley identified 4 elements: i) the nature of the state in relation to the private sector (its dominance and willingness to share risks with private owners); ii) the financial system features (credit, capital market and the role of the state itself therein); iii) skill development and control system (notably the strength of public training systems and state-union-employer collaboration, the strengths of unions and labour organisation and centralisation of collective bargaining); lastly, iv) dominant institutions of trust and authority relations.

In relation to the state, Whitley (2001) argues that the strength of the state is dependent on a) the integration and cohesion of the bureaucratic and political elites; b) the competences, cohesion and commitment of the bureaucracy to economic development; c)

the extent of state control over and regulation of private capital and enterprises through direct control or through a credit system; d) the ability and willingness of the state to sanction failure and reward enterprises for success in a predictable and even-handed way; and lastly e) the extent to which elites prefer to extract economic rents for personal and political gain at the expense of longer term development goals.

A key question would be how institutional complementarities between firms and between firms and the state appear or disappear. "Institutional complementarities do not emerge out of a [disembedded] process of economic selection but through the action of individuals, groups finding ways to weave together particular institutions that fit their interests" (Morgan, 2007:136). Furthermore Morgan argues that not all institutions are susceptible to change due to pressure of particular actors. There is a hierarchy and nestedness of institutions. Dominant and less mutable institutions reinforce the idea of path dependency. Moreover, local actors forge institutional complementarities through processes of bricolage and translation and this need not be permanent or structural. Morgan argues: "connections between institutions are diverse, often reflecting a loose coupling where actors search for and create complementarities that are specific for a certain time and place rather than already given by the structure." (Morgan, 2007:137) .

We are now in a better position to look at specific varieties of business systems in particular developing countries in Asia (Carney, et al, 2009) or Eastern Europe (Nolke y Vliegthart, 2009). Here I will elaborate on two, namely the segmented business system in Eastern Africa and the hierarchical market economies in Latin America.

Segmented business system in Eastern Africa

Wood and Frynas (2006) describe the business system of Tanzania, Uganda and Kenya as a segmented one. The authors maintain that institutions for economic coordination may not generate efficient solutions even though they may be highly functional to generate revenues for specific actors and maintaining existing power relations. According to the authors a "defining feature of African business systems is the central role played by informal networks interpenetrating the indigenous elite and the concentration of activity in the metropole – both in the hands of a relatively small commercial and industrial class, and TNCs" (2006:244).

In a segmented business system there are strong divisions between export oriented and non-export oriented sectors and within the latter between the formal and informal economic activity. TNCs and their local managerial elite can relatively easily develop indigenous business relationships and networks and potentially could invest in industrial upgrading but they rarely do as their targets must fit within the global plans of their parent company and because governments rarely engage in pro-active industrial policies. One reason is the reluctance of international financial agencies to finance such policies.

The indigenous firms are small and owner controlled through family patriarchal lines and operate on the edge of the formal sector or in the informal sector where competition is fierce. Economic coordination takes place through the arm's-length market relations. These firms lack access to formal financial markets and nowadays are threatened by competing imports. Moreover political uncertainty limits their expansion. Informal activity is often survival oriented with weak or no access to state support and often relying on informal networks of credit and mutual assistance. There is associational life that serves community and political purposes rather than economic collective action. Given the enormous power imbalances, public bureaucrats can wield disproportionate power over this subordinate segment and are able to steer the local development processes.

In terms of employment relations there is a strong dualism between on the one hand TNC and state and the indigenous sector on the other where there is little security of tenure or compliance with labour legislation. Vocational and educational systems are public but

historically are focused on administrative occupations. There is virtually no coordination with business as regards the specific demands for specialised skills. Informal training via apprenticeship training is still widespread. Since competition is fierce, small firm owners will not invest in workers to gain specific skills, for fear of them leaving and setting up a rival firm or being poached by a rival firm. Path dependence is real.

In a segmented business system there is limited complementarity of institutions. "Informal relations and network have provided a framework in which to conduct business that in some manner compensates for failures in formal regulation; hence formal systemic shortfalls in one are compensated by informal practices in another" (2006:265). The authors clarify: "the segmented business system is particularly characterised by a low degree of institutional complementarity in specific areas, other than in areas directly serving the immediate interests of a relatively small elite" (Ibid:265).

Latin American hierarchical market economies

Using a VoC perspective, Schneider (2009) has attempted to describe the core features of Latin American capitalisms, referring in particular to countries like Argentina, Brazil, Chile, Colombia and Mexico), denominated as Hierarchical Market Economies (HMEs). The core features are the existence of powerful business groups, the presence of TNCs, the dominance of lowly skilled labour and atomistic labour relations. The family based economic groups are conglomerates of diversified and unrelated economic activities. They mostly operate in domestic markets. Each business group maintains strong centralised control over a large number of subsidiary firms; these large groups represent 20% or more of a country's GDP. TNCs and their local subsidiaries are also hierarchical, as far as technology transfer, capital investment and supplier-buyer relationships are concerned.

According to Schneider, the liberalisation of the 1990s and globalisation in the past period have not resulted in more specialisation. On the contrary, the privatization of state activities has opened up new fields to diversify their activities.

In some respects the HME resembles the CME (e.g. in terms of non-market forms of corporate governance) while in other respects it resembles a LME (e.g. in labour relations) but it is a variety in its own right with its own enduring institutional complementarities. Even though these countries may have developed important business associations which may enjoy the support of relevant business groups, these business groups may act in their own private interest overriding collective interests when it comes to political influence, as is also shown by Rettberg (2005).

The dominance of TNCs and business groups has slowed the growth of capital markets and development of corporate governance while inter-firm relations are either not very deep (for TNCs) or highly uneven (as business groups tend to dominate in oligopolistic markets). Neither business groups nor TNCs invest in skills of workers nor do workers invest in specialised skills. As a result longer term employment relations do not develop.

The high volatility of the state and social inequalities increase economic uncertainty and this stimulates business groups to remain diversified, remain flexible and maintain arm's-length labour relations. The influence of unions is restricted and unionization is low. Even though the state may have created extensive labour regulations these are not often upheld in courts. The dominance and unpredictability of the state makes everyone dependent on the state and this also undermines the willingness of firms to invest in institutions of strategic coordination.

The need to bring politics in

If we accept that economic institutions are shaped by political institutions, as I do, then we need to bring politics into the picture. As regards the role of the state, development

studies have often held the implicit view that developmental states are a necessary and sufficient condition to advance economic development and its embedded autonomy (a la Evans) has been identified as a critical precondition. Khan's (2010) analysis of the governance of growth enhancing institutions gives us a different and in my view more relevant perspective.

According to Khan (2010), the key goal of the ruling elite in many developing countries is to remain in power and this may involve 'buying' the support from particular groups in order to sustain its power and political stability. All the groups and individuals that support a ruling elite together form the ruling or dominant coalition. A coalition may be broad based or dependent on a few powerful groups (e.g. the military). A political settlement then refers to the set of institutions and power relations characterizing the social order in a particular country. Dominant groups get 'their share' in resources that is compatible with the power structure.

A key consideration is that in low income countries the formal sector and the domestic revenues generated for the national budget may be too small to buy political stability. Moreover, since formal institutions confer rights to any individual or group, irrespective whether forming part of the dominant coalition, members of the dominant coalition may prefer to operate through informal institutions of their network, rather than become exposed to the competition of other entrepreneurs. In a similar vein, new formal institutions may have distributional effects that do not benefit the dominant groups and hence they may either oppose the 'reign' of these new rules, or demand informal compensation. This means that the formal sector cannot be seen as an island of efficiency in a sea of informality (the 'modernization' viewpoint) because the formal sector itself is deeply embedded in a mix of formal and informal institutions that characterise the particular political settlement of a country.

As a consequence formal institutionalised support to would-be entrepreneurs would be less effective if the entrepreneur would not belong to the dominant group since the latter would demand a share in the benefits through informal institutional arrangements. This makes a new business venture more costly. But if the would-be entrepreneur belongs to the powerful group he/she would not need formal institutional support as such support would then also become available to rival entrepreneurs. In stead the entrepreneur would prefer personal informal arrangements that would enhance his/her business venture rather than formal industrial policy. Thus, only if the industrialists as a group would be able to discipline themselves and demand a formal industrial policy and open competition, would such a policy work.

Khan gives a lot of attention to the growth-stability trade off. The ruling coalition needs a minimum level of economic resources in order to maintain political stability. Hence its relationship with the productive sector is important, alongside of course its access to aid monies. What will be the effect of a growth enhancing institution on growth and stability? Does it generate growth and how does it affect stability of the ruling coalition? This, according to Khan depends on i) the pre-existing political settlement; ii) the institution in question, who introduces it, with what (intended) distribution of costs and benefits and iii) the strategies of the ruling power groups to enforce or undermine the institution in question.

Kjaer (2015) uses political settlement theory to explain why in Uganda certain policies to strengthen the institutions in a sector were succesful and were sustained, while others were initially succesful but later waned. She starts by painting the political situation in Uganda in the 1990s when Museveni's NRM power position was being eroded by multiparty democracy and by lower ranking party members wanting to benefit more from policies. Her paper examines the three sectors, e.g. finding that fisheries reform had been so successful that it led to resource depletion which harmed fishing industry interests.

Reforms were subsequently stalled. She then looked at the new policy of agricultural extension implemented through NAADS which initially was successful but later stalled as local councillors and officials, who were initially side lined in implementation and could not benefit from the spoils of the program, began to resist. Lastly, she looked at the dairy sector in the south-west of the country where the historical power base of the NRM is found. There the policy was successful in reform enabling the milk producers to upgrade their participation in the domestic dairy product chains.

Kjaer's analysis resonates with our own research seeking to explain why the generally praised decentralization policy of the late eighties and early nineties derailed in the late nineties as new districts were created, rapidly reducing the average size and raising overhead costs (Awortwi & Helmsing, 2014a, b)⁷. Initially the creation of new districts was justified on the grounds of bringing services closer to the people. However, since 1997 and especially after 2006 the creation of new districts has become a means to political patronage and a variant of gerrymandering (redrawing district boundaries), especially in opposition areas where the regime felt threatened.

The business systems of Colombia and Uganda are fundamentally different: Since the departure of the Asian business community, Uganda faces a 'missing middle' of medium and large scale domestic enterprises which potentially can lead domestic segments of global value chains. As we saw above the dominant coalition may have a far greater interest in primary exports (and aid) than in promoting the competitiveness of domestic enterprises, not to mention a long term interest to promote the upgrading of smallholder farmers and informal enterprises. The latter may also prefer to stay below the radar of government and are not organised formally to represent their interest (Nugent and Sukiassyan, 2009)

In Colombia we find a business system dominated by large diversified business groups that control substantial sections of the formal economy. In my PhD thesis I traced the origin of 21 of such groups and have shown how these are linked to the regional economic histories of the country (Helmsing, 1986). The State is characterised by formal democratic structures, but as we saw above the influence of the dominant economic groups is strong. On a number of occasions the state has ceded taxation powers to such groups via their business associations. This already occurred in history when the National Coffee Growers Federation obtained the exclusive right to export coffee *and* impose a levy on exports (Helmsing, 1986). More recently the state has ceded powers to raise so-called 'parafiscal funds' to business associations to finance their collective action under the competitiveness agreements which are an important form of public-private partnership to improve competitiveness of Colombian value chains in the face of greater participation in the world economy (Blandon, 2012).

Process of selection and inclusion

In our book and in the knowledge agenda we showed that chain actors look at selection and inclusion from different angles. Below I will start from the lead firm perspective and examine what the considerations are to select a particular area and producers to be included in its supply chain. Then I ask: How do local producers view this: what shapes their considerations to participate in a chain? After that I examine the role of other stakeholders or chain promoters, notably state agencies and NGOs in this process.

Many value chain studies focus on a chain in existence but the analysis should begin with the question *if* there is to be a chain and *where* the chain touches down. Clearly this cannot be seen in isolation from some basic considerations in agriculture and the institutional context of the country concerned. In agriculture, small producers may have a comparative advantage over large producers on labour intensive crops for which planting and/or

harvesting cannot easily be mechanised or where quality of produce needs close attention. Also environmental or agronomic considerations may explain why a diverse production dispersed over many plots is to be preferred over large mono-cropping plantations, for reasons of reducing risk of incidence of climate and disease.

Barrett et al (2012) argue that a processing firm selects those geographical areas, which possess the agro-ecological potential for the particular crop, both in terms of desired quality and sufficient quantity. But this choice is not limited to production considerations only but also takes into account chain logistics in terms of warehousing, transport from farms to collection/trans-shipment and processing points. The location of processing facilities in turn can be critical to reduce logistic costs. Notably for products that are weight loosing, location theory tells us that these will locate as close as possible to the areas of production, subject to the availability of other location factors such as transport and energy. Thus lead firms will choose the most accessible regions and most likely those with the most developed physical infrastructure. A peripheral region may be selected only if a firm wants to ensure exclusive control.

It is furthermore likely that firms would prefer to enter areas where farmers already have exposure to market relationships. Other considerations play a role such as the presence of chain promoters that are able to provide training and technical and financial support. In that respect we know from many NGO studies that NGOs *also* select high potential areas to promote economic development and do so in areas that are not too distant from the national or provincial capital (Le Grand, 2014, Bebbington, 2004, Koch, 2009). Barrett et al conclude: “An important implication of the geographic placement effects is that they tend to reinforce geographic poverty traps and regional inequality” (Barrett, 2012:724).

But what criteria do lead firms apply to producers? Clearly scale and ability to produce at required quality levels are key considerations. Firms would want to reduce their transaction costs. A few contracts with large-scale producers would be preferable over many contracts with many individual small producers. Are potential suppliers capable producers and can they count on specialist services to deal with all kinds of production requirements and challenges, such as credit but also disease.

A central question is how aggregation or bulking, sorting and grading of produce can be organised. Are small producers able and willing to operate as farmer groups or can a farmers’ organization (or cooperative) step in as intermediary, which can ensure lower cost of bulking but also play a role in quality assurance? Do farmers’ organizations already exist and do these already have institutional arrangements for collective action in the sphere of marketing and procurement of services? Can such farmers’ organizations engage in contracts on behalf of the farmers?

While the ultimate decision is up to the processor firm, states and NGOs can influence pre-selection. For example in Uganda, the NAADS program was important for the selection of crops for which government support would be made available. Furthermore, the government pre-selected the areas within the selected districts where the NAADS program would be rolled out. Similarly the presence of NGOs can influence the selection of potential chain producers based on the development mandate of their programs. Also the NGO in Peru pre-selected producers with access to at least one hectare of irrigated land and with agro-training institute qualifications; In Uganda, officially the communities would identify who would be ‘deserving households’ who would then become the ‘model farmers’ who in turn would diffuse the knowledge to other rural households (Helmsing, 2014, 2016). However, in practice local politicians and bureaucrats may be bent on selecting local farmers on different and political grounds.

Bastiaensen et al (2005) see local institutions and the participation of smallholders therein as “the result of a complex set of different historically situated on-going bargaining processes among social actors” (2005:981). Bargaining is not political in the

sense of taking place in political bodies such as councils, but also in everyday life. The poor are often excluded from these bargaining processes about resources and opportunities as bargaining takes place within political arenas to which they are not connected. Other actors may claim to negotiate on their behalf but can twist resources and opportunities to their own advantages. So, even if formal arrangements may specify community participation to select deserving poor households, informal arrangements may still ensure elite and political capture, as explained above by Khan (2010).

The question can also be viewed from the side of the local producer. Careful institutional arrangements at farmer group level that permit adequate monitoring and traceability increase trust in collective action and reduce free riding. In other words there is no alternative to formal rules of monitoring but do local institutions allow it?

How do local producers consider their participation in the chain, their inclusion? This has been an important issue in our latest book. One of the often implicit assumptions concerning the developmental impacts of global value chains on smallholder producers is that their inclusion is considered to be a good thing: included small producers are better off than excluded ones. A small farmer may indeed find it attractive when the opportunity is perceived to constitute a net benefit, even more so if it constitutes a complementary activity and source of income at a low risk. Moreover, as argued by Barrett (et al, 2012) through a contract farming arrangement in a chain, market failures in complementary markets may be resolved that otherwise would prevail, for example, in the provision of credit, insurance, agricultural extension and inputs and information.

However, the small farmers may decide not to participate if the proposed value chain changes the gender division of labour or upsets the intricate livelihood portfolio and strategy, creating labour shortages or undermining environmental interdependencies between varied activities. The joint management of productive assets such as irrigation works and equipment may be a cause of future conflict, especially in areas where institutions for the management of common pool resources have not been well established. This happened in the Peru case where the lack of provisions for entry and exit of members constituted an important source of conflict (Helmsing, 2013). But the opposite can also happen: a local actor may decide to collaborate on the basis of cultural grounds or local pride rather than strict economic calculation (Mohan, 2016).

Moreover, whether the chain concerns a part-time or off-season activity or the chain participation is a full time activity that generates the main source of income is also an issue to be reflected on. In our case of Ugandan part-time beekeeping, the creation and enforcement of institutional and contractual arrangements are costly in relation to the part time activity, but in Peru the high value horticultural activity generates the primary source of income. Hence there was a greater attention to formalizing institutional arrangements concerning the farmer group and the farming contract. Free riding or opting out (side selling) would also be more costly and would have greater consequences in the second case than in the first.

How stable are chain institutional arrangements? Will both parties honour the agreement? Opportunism presents itself since contracts, even if written, are always incomplete and information asymmetries abound. Barrett (2012) gives many examples such as in relation to grading of the quality, in weighing the volumes, in renegotiating the price after harvest or in delaying payments. But the producer can also act opportunistically by using agreed inputs or credit for other purposes or by side selling the crop to other parties. Even in cases where prices and quality standards have been jointly agreed, crisis situations may push any of the parties to renege on the contract as we saw in the asparagus case of Peru where in times of crisis not only producers defected but also processing firms did not honour their contracts (Helmsing, 2013, 2016).

If the chain is supported by NGOs or the State that has invested in a broader livelihood program then this could be leveraged to keep parties from breaching their agreement. Similarly NGOs and farmers' organisation at a higher level could provide countervailing power to the small producers in the face of threats by the chain firm. My own experience from Peru tells me that when relations have been established and trust has emerged, then both processor and farmers could jointly face industry wide challenges, as in the case of the global competition on green asparagus. The processing firm was equally interested in finding alternative high value crops and provided assistance in order to spread associated technical know how to small producers (Helmsing, *ibid*).

What can we conclude on selection and inclusion? Barrett et al (2012) are clear in their conclusion: "firms commonly, but not always, opt not to buy from areas where infrastructure and agro-ecology conspire to make agriculture less profitable. Rather, they most often buy from areas where roads are better and access to water is easier and which receive more attention from NGOs and donors" (P. 724).

The presence of farmers' organizations that act as intermediaries, reduce bulking and can select on quality of produce is important. Intermediary organizations reduce the risks of supplier failure. When small farmers face market failure in accessing credit, extension or other inputs, chain participation and its interlinked institutional arrangements can help address these, even if the welfare effects of participation itself may not be very attractive. The market failure in these complementary markets, prevailing in the area, can thus be an important incentive for small farmers to participate in chains, even if the return on investment is low compared to other actors in the chain (Otieno, 2016).

Process of leveraging

In the first two stages ('touching down' and 'selection and inclusion') we have seen that GVCs are selective in their choice of territories and locations. They select those that provide the best local conditions for the development and expansion of 'their' chain. We can also look at this from the other side. How can value chain development be leveraged for local development? Can value chain development help to break an existing lock-in and to create a new sustainable local economic development path?

The knowledge agenda suggested that many value chain-based interventions, either by NGOs or firms, show a primary interest in leveraging towards 'their' value chains and that lead firms do not feel responsible for a 'better' local embedding or for spill-over effects to other chains in the territory. These are seen as primarily a responsibility of governments and, to some extent, NGOs. But there is also the empirical observation that rarely a lead firm can efficiently and effectively coordinate all activities in a chain. This may be a motivation for firms to be concerned about local conditions in order to improve the systemic efficiency of 'their' value chain. This may, for example, underlie corporate social responsibility or strategic philanthropy investing in the local economy (Porter & Kramer, 2002). Strategic coordination can be used for both leveraging local development for VCD as well as for leveraging VCD for local development.

This brings us to the following questions: i) can value chain specific measures to address market failure become generic solutions to these failures? ii) can value chain development in the area trigger the formation of clusters? iii) does the value chain create capacity and competencies that can be deployed to diversify the local economy? iv) do local actors have the capacity to engage lead firms? Below we will briefly reflect on these questions.

In all, leveraging is focused on the question: 'can externally driven development be endogenized'? GVC theory is conceptually not equipped to answer this as it looks only at organizational linkages between firms in a network. Endogenisation concerns spatial and

temporal linkages between the global chain and the local economy. Thus, to what extent do organizational linkages in the chain become rooted in linkages between firms and organizations in the local economy?

In relation to the first question raised above, many studies have observed that the success of VC interventions depends on the ability to address market failure which smallholders face in complementary markets such as credit, inputs and extension services. Interlocking contracts may be helpful to overcome market failures but these also tie the local producers to that particular chain. A more generic approach to eliminating market failures may open up more opportunities for local producers and would therefore be desirable. Sometimes the interlocking contracts can constitute a leverage to build up a credit history with financial institutions which over time would allow for a generic access to credit by the smallholder. This has been happening in the Peru case where after a difficult period of credit management by the NGO, the credit scheme was contracted out to a financial institution. A government financed credit export promotion scheme played a key role in that regard (Helmsing, 2013, 2016). A credit guarantee scheme could perform a similar function.

In relation to the second question one could argue that if a chain activity spreads in an area and reaches a certain critical mass, then agglomeration economies could set in and spill over effects can emerge spontaneously. So for example, in Northern Peru, the provision of chemical inputs, the rental of equipment, transport and extension services improved following the rapid expansion of asparagus growing in the department (Helmsing, *ibid*). A critical mass offers scope for extending the value chain from below (as in beekeeping in Uganda) creating backward linkages (the making of the hives and exporting these to neighbouring countries). It also offers scope for building forward linkages: once the asparagus producers had invested in a packing and refrigeration plant, they could develop direct sales (Helmsing, *ibid*)

This phenomenon is known in the literature as cluster formation. Although the phenomenon is mostly known in relation to small firm manufacturing, industrialised agriculture has similar features. Schmitz (1999) likened this process to generating collective efficiency as it cannot be attributed to any firm in particular but the benefits potentially accrue to all firms in the cluster. Schmitz noted also that once a critical mass has emerged, the firms can also engage in collective action to produce services that each firm individually will not be able to realise. So, in order to distinguish the two phenomena, the former was labelled passive collective efficiency and the latter as active collective efficiency. More recently, it has been argued that clusters also act as an incubator for start-ups as clients, suppliers, inputs and knowledge are concentrated in an area while the entry in only a specialised task lowers the capital costs of starting an enterprise. In Peru the profitability of asparagus and the demonstration effect of successful small farmers producing high value crops, attracted young entrepreneurs to hire land and join small farmer groups to engage in the same activity.

Already in 2003, Requier-Desjardins et al, made the case to apply cluster theory to local small farmer agro-food systems and they provided extensive empirical evidence of case studies to demonstrate the abovementioned effects in different Latin American countries. Central to the relative success of these is rural food processing. Colombia counts many examples: *panela*, *bocadillos*, *rallanderias*, *pan de yucca*; in other Latin American countries there are also many examples of dairy and processed meats. Collective action to obtain certificates of origin can play a key role in leveraging VCs for local development (Requier-Desjardins et al, 2003) but other factors are critical to upgrading (see below).

The expansion of related and supporting industries subsequently can be deployed to make diversification of products possible. In Peru, the price war in asparagus initiated by China led agro-export firms to diversify their products such as artichoke and peppers.

Critical in this regard is the role of the agro-exporters as they control access to the global end markets (Helmsing, 2014).

In conclusion, if global value chain would offer opportunities for leveraging to strengthen the local economy, that would considerable increase its policy value. One of the fundamentals of GVCs is a global task division of labour, whereby different tasks are carried out at different locations across the globe. This in itself poses a serious constraint of the potential for LED that GVCs would have. Moreover, lead firms of GVCs are highly selective in where they will touch down, selecting those areas, which already contain market development and possess economic and physical infrastructures. Certainly there are potential local effects in related and supporting industries and in learning that allow local producers to use experiences obtained in GVCs in other export or domestic product chains. However, a critical mass is needed for cluster development effects to emerge, both generating passive and active collective efficiency and assist in diversifying the local economy from one chain to other product chains, increasing the local content and generating local value addition.

Process of upgrading

The process of economic upgrading is closely related to the functionalities within a value chain, and has received a lot of attention in practice, policy and research. Upgrading can be defined here as increasing the participation of a particular actor in a value chain. This may consist of process, product or functional upgrading or to switching to more rewarding value chains.

It is important to note, as did Henriksen et al (2010) in a recent detailed review of case studies, that many VC projects of NGOs exhibit strong path dependency. That is to say these projects followed from an existing trajectory of socio-economic interventions within the organization's development mandate. The projects reasoned from an existing target group and not from the perspective of a particular final product in more or less distant consumer markets.

What did these VC interventions entail? "In most cases activities [were] designed at various functional nodes along the chain including farm level, processing, distribution, marketing, end-market and business services. Most cases focused on marketing of small farmer output. Only half of the cases engaged in the area of input supply." (Henriksen, 2010:25). Only one case went beyond the domain of the chain and specifically targeted the business environment. "At the farm level, activities ranged from training schemes in plantation and disease management, GAP and postharvest handling to technology transfer, certification schemes, contract management and quality control systems. At processing level most activities were concerned with either improving or building from the ground processing units that would eventually lead to product upgrading" (ibid: 25). "At market level most activities aimed at branding and promoting primary and processed products to local, regional or international markets in order to increase premiums for actors down the chain" (ibid: 26). Much less common is to operate from the final product end of the chain. An interesting example comes from Devaux et al, (2009). Local convenience foods can be made from domestic primary inputs. However, to innovate such products in all their aspects, presents serious coordination and transaction challenges and upfront development costs.

I will look at four different institutional arrangements that form part of these development practices, namely i) standards, ii) producer collective action, iii) platforms for strategic coordination and iv) public/private partnerships.

Standards

In mainstream policy and practice, standards are seen as pivotal institutional arrangement to the upgrading of local producers. Standards play a role to differentiate supplies to attend to particular niche or segment where quality premiums can be realised. The debate on standards has become a complex one. There are many different kinds of standards (product, process or territorial origin standards that either focus on technological, environmental or labour cum social issues). They may be advocated by different actors and for different motives: trade or manufacturing companies, NGOs, industry associations, and governments (Nadvi, 2000). The different actors have different perspectives on standards as they seek to achieve different goals. NGOs have development objectives such as poverty alleviation, environmental concerns or economic development per se. Governments, central or local, often have an explicit or implicit focus on domestic or territorial development (e.g. a country brand or a certificate of origin protecting the producers in that area).

I will not enter into the debate on particular standards and their relative merits⁸, except to note the following. Firstly, many company driven standards are a combination of market considerations based on price and quality and industrial considerations concerning standardization and efficiency. NGOs on the other hand stress domestic or place and civic considerations and their standards are not only to benefit individual producer but also territorial communities. Alternatively, these may aim for broader public benefits (environmental/climate change). As Reynolds (2014) shows for Fair Trade, mainstreaming a civic driven standard may give rise to tensions that are not easily resolved. It has the danger of watering down the territorial cum domestic dimensions in the face of industry wide demands for uniformity and efficiency.

Secondly, adapting global standards to local conditions in an effort to improve small producer access to these standards is often a process that takes place over the heads of local producers. Talontire et al (2014) showed this for Kenyan horticulture where a KenyaGAP standard was created as an alternative to GlobalGAP. In itself it is a good initiative of economic coordination that would be more smallholder friendly and locally appropriate. However, the authors found that participation of smallholders in the formulation and negotiation about these standards is limited and contingent “because smallholder representation is not direct but undertaken by others, without a clear mandate and based on the exporter relationship (P. 2014: 359). They continue: “standards development is regarded as a technical process, drawing on a pool of scientific or managerial knowledge, with participation viewed as an extractive process, focusing on the best practice rather than representation” (ibid: 361).

Producer collective action

Narrod et al (2008) argue that small farmers face three challenges in relation to food standards in high value horticulture products. Firstly, the scale, as compliance with food standards incurs high costs in production and marketing; secondly, the smallholders face challenges in relation to information on the safe use of inputs and management of pathogens. This requires the hiring of expertise; thirdly, as food quality cannot readily be observed it involves information asymmetries and therefore reputation matters.

Producer collective action is therefore important in all three phases of the value chain: i) in the pre-harvest phase for obtaining the information and knowledge about contracts and markets as well as about food standards and how to uphold these and in making the substantial investments that may be necessary to realize these; ii) in the production phase collective action is needed to establish food traceability and group monitoring systems and of course to get access to extension services and for procurement of inputs; iii) in the post-harvest phase collective action is needed for collective marketing, grading, sorting and certification as well as for maintaining the group monitoring system and to engage other stakeholders. Collective action in relation to food standards thus is needed to signal

that small farmers have a comparative advantage, are able to safeguard food standards and can handle the implied moral hazard and adverse selection challenges.

Collective action among small farmers is critical to compensate for their lack of scale. In order to get access to these profitable markets smallholders face all kinds of market failures or imperfections due to high transaction costs in practically all non-labour transactions. As Markelova et al (2008) explain: "Lack of information on prices and technologies, lack of connections to established market actors, distortions or absence of input and output markets and credit constraints often make it difficult for small farmers to take advantage of market opportunities" (2008:1). Even more so in quality conscious and organic niche markets. Acting collectively would help in overcoming these challenges. The authors use knowledge on collective action obtained in natural resource management to apply this to collective action in marketing. They identified four issues: the first relates to the institutional arrangements concerning the group (size, composition, clear boundaries, shared norms and trust and social capital and interdependence between members and quality of leadership); Secondly, the group institutional arrangements must be easily monitored, be simple and understandable to all members. Graduated sanctions and accountability of leadership are deemed important. They stress the importance of types of products and markets. For perishable high value crops collective action in marketing offers considerable potential because of savings in transaction costs. It can also increase bargaining power and yield better prices. This applies less to undifferentiated commodities and staple foods. "In general the longer the market chain is, the greater the disadvantages faced by smallholders in market access are. While local markets are the easiest to access, they may also offer low potential gains, because even individual farmers can sell locally" (2008:4). National markets may offer real gains especially to supermarkets and in the B2B market segment, as do export markets but these face higher challenges in terms of quality and market risks.

In examining smallholder upgrading in Central America, Hellin et al. (2008) showed that the group process implies considerable challenges: "It is often a challenge to establish collectively agreed rules and to monitor and enforce compliance." (2008:17). A farmers' organization may imply in itself high costs such that it may actually be better not to have an organization; poor farmers often lack the necessary skills for running a farmers' organization (education, entrepreneurial and management skills and financial capacity); there may be mistrust between farmers; or too strong social bonds which prevent enforcement of rules for fear of alienating friends and relatives; and their organizations may be abused by others for political ends.

The above points echo in our case studies. In Uganda the lack of written agreements between the processor and lead-farmer and between farmer groups and individual members as well as an environment of lack of trust and skills, made it difficult to handle moral hazard and adverse selection problems. In Peru, only after a long period of trial and error, agreements were spelled out in detail and selection criteria and sanctions were imposed on members of the group (Helmsing, 2013, 2016).

Collective action by smallholders needs a favourable external environment. Farmers' organizations cannot easily flourish in a context of state hostility. NGOs are generally recognized as being an important ally for smallholder organizations. They provide capacity building, but they need to have market connections and not confuse competitiveness with social policy. "While NGOs may be well suited for the role of catalysts of collective action for marketing, it falls on the public and private sectors to ensure that there are incentives for farmers to organize through policies and programs that allow them access to stable and competitive markets" (Hellin et al, 2008:6)

Platforms for strategic coordination

Platforms serve strategic coordination and above all have the potential to connect smallholders to other actors. The Participatory Market Chain Approach stresses the importance of two types of stakeholder platforms: i) local platforms between producers, local governments and service providers to empower small farmers, reduce transaction costs and improve service delivery, and, ii) chain level platforms where farmers' associations interact with other chain actors (traders, processors, supermarkets, R&D organizations, etc.) to promote pro-poor innovations. Devaux et al (2009) give illustrative examples from Bolivia, Peru and Ecuador, mostly on new products from traditional indigenous potato varieties creating high value niches for potato products. The authors make two important reflections: the collective action literature stresses groups with homogeneous interest; innovation literature stresses diversity of actors to generate social learning. The type of complementarities and synergies are different at different levels. The institutionalization of coordination platforms is less critical if the concern is innovation; there is no need for permanency.

Reporting on platform experience in oilseeds in Uganda, Vellema et al (2013) revealed a dynamic of the coordination platform. It became a 'glutinizing' vehicle to coordinate the many issues that various actors needed to address. "The platform provided a space for processing companies, producer organizations and NGOs to interact, but it also encouraged millers, traders' associations, chain facilitators and service providers to come together, share their knowledge, negotiate on providing services to each other, develop a policy advocacy and carry out joint actions" (2013:309). Initially, there were clear and strategic differences and tensions. Furthermore, the platform produced contradictory effects: on the one hand it facilitated advocacy towards government (e.g. to release plant material more quickly), but on the other hand rival companies could seek out new institutional arrangements with selected groups of small farmers. Through the platform new institutional practices were spreading and simultaneously banks were responding with new financial services tailored to the sector. So, learning through a platform may give an opportunity to establish reputations in the market that can be deployed in other products and activities. Platforms can have unintended and unforeseen consequences that are better explained by changes in the context than by the project intervention itself.

Public-private partnerships

Poulton and Macartney (2012) made an historical diagnosis of agricultural VCs in SSA and argue that poor performance is due to: i) a private sector that has focused its involvement to trading agricultural surplus and limited its role in the provision of pre-harvest services and inputs; ii) the state that has not fully withdrawn from many input and output markets and their continued presence discourages private investment in the same. They conclude that unpredictable state policies are the real reason why private sector investment is not forthcoming rather than the high transaction costs per sé, as NIE would argue.

Public-private partnerships are an independent but also complementary institutional arrangement for small farmer collective action, notably in i) providing or facilitating extension and info services; ii) infrastructure development in the area such as roads, dry or wet ports and storage facilities etc; iii) facilitating capacity building and training for certification, grades and standards and iv) providing financial support for establishing and operating coordination mechanisms like platforms discussed above.(Narrod et al (2008).

Others see scope for private sector investment and maintenance of rural roads, irrigation, markets and rural ICT. In addition, small farmer access to extension services or fertilizer can be improved through contracting out or via demand stimulation (using voucher schemes). Smallholder market failure in complementary markets could be reduced through loan guarantee funds to bank and to stockists/distributors. Last but not least, the

authors stress that the mutual lack of trust by the private sector and the State constitutes a challenge that could be approached by emphasizing strategic coordination via stakeholder fora (Poulton and Macartney, 2012). However, as we have seen above this may be a too simplistic technical answer to a deeper political economic problem of state-business relationships.

Looking beyond the lamppost: local institutions

Value chain practitioners look at VC institutional arrangements in isolation but if we look at the local context three issues come up. Firstly, there may be competition between different standards, each with its own monitoring protocols and associated costs but also competition from *other* types of institutional arrangements. There may be competition in the same area between different institutional arrangements associated with different chains; there may be competition from other new and rival institutional modalities competing in the same chain. It also happens in other ways. The very growth of smallholder participation in high value products in a particular area may, for example, attract outside traders and arm's-length market transactions. The traders are attracted to the area because of the growing supply as we saw in the Ugandan apiculture chain.

Secondly, the institutional arrangements of a new chain may have knock on effects on existing local institutions. Dolan (2005) showed how development interventions can conflict with the complexities of local social organization, and how these are appropriated, transformed, and resisted in unintended ways. VC development interventions to benefit smallholders are often based on the gender blind picture of a unified household⁹. In her district case study in Kenya, three features of the production system have shaped development outcomes: (1) vegetables are culturally defined as female crops; (2) vegetables are grown on women's usufruct land; and (3) women have the right to control the income and products derived from their usufruct property. When contracting was introduced, these cultural entitlements were reinterpreted, yielding a restructuring of land, labour, and economic relations. Women performed three quarters of the labour and obtained only a third of the generated income. Dolan concludes that contract farming converted agrarian households into sites of gendered struggles over land, labour, and income.

Vellema et al (2013) arrived at a related point when they examined the introduction of a warehouse receipt system in Rwanda that would replace local intermediaries who traditionally buy maize before harvest from local smallholders. That local institution is seen as exploitative and donors, NGOs and the government were all supportive of institutional change. The new arrangements consisted of a partnership between a micro-finance organization and a trading company and it was supported by a contract with the WFP, which started to source maize locally. But as the market conditions became more favourable and also the commercial banks entered agricultural finance, the trading company decided to make itself more independent of the partnership and expand its arm's length trading activities. An existing local cooperative formed by better off small farmers then started to replace the trading company, reducing the circle of beneficiaries of the WRS. Moreover, smallholders did not easily give up their autonomy to decide to whom to sell and when. Many returned to the local intermediaries and the old pre-existing local reciprocal institution. The new institutional arrangement did not have the intended outcomes as market conditions changed, key actors switched strategies and old pre-existing institutions turned out to be tenacious.

Mohan (2016) uses the livelihood framework to examine effects of GVCs on local institutions because upgrading in a chain needs to be seen in the context of small farmer livelihood strategies. On the one hand there are GVC institutions associated with upgrading (standards) and local institutions and organizations that are created or adapted in response to the GVC intervention but local institutional change may also be a response to the knock on effects of VC participation on the local livelihood strategies of

the small farmers. The author describes tea value chains in Nepal (orthodox and organic). Apart from VC institutions (standards, payment modalities and grading rules), she identifies local institutions in the area of labour (recruitment, payment, allocation rules), finance and informal norms in the villages (gender, valuation of future, environmental attitudes, accepted levels of risk, social convention, etc.). Smallholders may respond to VC institutional arrangements if they manage to absorb the consequences of VC participation on the local institutions or if they succeed in incrementally adapting these institutions through processes of bricolage. The point is that even if the VC participation offers higher or more stable prices it may also cause more stress in coordination of activities in line with other local institutions or may even result in a rejection of VC participation in spite of the potential benefits.

Mohan (2016) synthesizes a typology of *sequences of institutional change*. First, in her case of tea in Nepal the tea factory initiates upgrading. This triggers changes in the governance of the chain, the factories invite the cooperatives of the small farmers to get certified on the strict rules of growing organic tea. This in its turn leads to changes in smallholder strategies: as cooperatives get certified, farmers decide to join or to exit, with concomitant livelihood implications of the new demands on tea production. This also leads to organizational changes: the cooperatives become central in organizing training for farmers to convert to organic tea. This in turn results in shifts in informal norms: group monitoring creates more social control to prevent free riding: that no one uses chemical fertilizer or pesticides. This then generates a new norm about growing tea sustainably. Last but not least, livelihood outcomes emerge: higher and more stable prices but also more stress on labour to produce organic fertilizer, stress due to high coordination requirements, and new informal norms and values concerning the gender division of labour and on management of natural resources.

Institutional entrepreneurship in upgrading processes

An important factor in the effectiveness of VC interventions is the institutional entrepreneur. That is the person or organization that introduces the new institutional arrangements in a particular locality. Following Campbell (2004) one could argue that institutional change often involves both issues of translation of the new VC institutional arrangement into the local context as well as bricolage or incremental adaptation of existing local institutions with which these *co-operate*. According to Campbell institutional entrepreneurs are often located at the interstices of social, political and institutional networks and organizational fields. The chances for successful innovation depend on the capacities of these institutional entrepreneurs, their ability to mobilize political support from interest groups as well as of other organizational and institutional leaders; the availability of financial, organizational, administrative and implementation capacities; and political, economic and other resources needed to ease the constraints and opposition they face.

It is surprising how little VC studies have researched this process. A very good exception is the work by Ritchie (2016). Women entrepreneurs participating in new value chains in Afghanistan face severe restrictions on their mobility due to the Islamic institution known as *Purdah*. By skilfully negotiating with men, Imams and village leaders and based on a deep knowledge of the Koran, the local NGO could make considerable progress, although effects were differentiated by the marital status, age and social status of the women.

Conclusions

Global value chains have come to dominate international trade and as a consequence countries compete in terms of their economic role in such chains. What applies to countries applies even more so to local economies within countries. The processes of economic restructuring at a global scale have made local economic development much

more volatile. Local economies seek to retain local industries/activities while making use of new opportunities. They struggle between specialization and diversification.

Value chain upgrading is seen as a way to avoid a 'race to the bottom' in the face of increasing global competition. This has been a powerful argument for a rapid popularization of the concept in development-oriented interventions. This positive message of the upgrading thesis also became a guide for local economic development.

In this essay I have looked at value chains as a tool for the promotion of local development. The many VC intervention manuals have in common that they mostly limit themselves to the chain itself and the coordination between the different segments in the chain. However, the manner in which the value chain connects to a local economy is not only shaped by relationships within the chain but also by the context in which the chain has 'touched down' and becomes embedded in the local territory.

Value chains can be seen as a set of institutional arrangements or rules. These arrangements define the terms of participation of each actor in a chain, and by implication what value gets appropriated where in the chain. This makes VC analysis a field 'par excellence' for institutional analysis. Bringing these two fields (GVC theory and the study of institutions) together has been the main purpose of this essay. This paper is not about coming to a verdict: is SF participation in GVCs good or bad but is a plea for a broader institutional perspective on the issue of VC participation.

I build further on a framework which I co-developed some years ago and which identified four processes to better capture the interaction of global value chains with local institutions in the host country and host localities. These are the processes of 'touching down', of selection and inclusion, of leveraging and upgrading. I have elaborated on institutional aspects of each of these four processes.

In terms of the institutional context of 'touching down', I looked into the business system of host countries. Its conceptual formulation draws on theories on the institutional foundations of competitive advantage and their further specification for specific countries in the South. Notably the Segmented Business System of Eastern African countries and the Hierarchical Market Economies of middle sized Latin America countries.

A further look at the politics of institutional change following Khan (2010) brings to light the complexities of state business relationships. In a segmented business system, such as Uganda, domestic entrepreneurs may not be interested in growth enhancing formal institutions. If they are not members of the ruling coalition they may have to compensate the latter via informal institutional arrangements (making their projects more costly and risky). If they are affiliated to that coalition, they would benefit already from existing informal institutional arrangements and hence not be interested to expose themselves to competition from other entrepreneurs under the new formal institution. Worse, the State would only have interest in reforms if these serve their immediate personal interests. The policy environment is therefore highly volatile, reforms that are supported at one particular period, may be stalled or undone when politics demands this.

In hierarchical market economies such as Colombia, a value chain development program may work, if it serves the interests of powerful business groups as evidenced by the ongoing competitiveness agreements in that country. The fact that the state has ceded so-called 'parafiscal funds' to key sectors to finance their collective action programs for chain upgrading shows the fundamentally different state-business relationships.

I note considerable parallel arguments with Minten's analysis of the favourable effects of value chain development for small farmers in Madagascar (Minten, 2009). Instead of the US AGOA act and the former EU Lomé Convention, there is the US-Colombian trade agreement as well as planned future trade agreements with EU and other countries. These have stimulated domestic business groups to prepare new institutional foundations for

comparative advantage. Instead of a large business consortium of Indo Pakistani origin, we find here large Colombian business groups. If there is no rival large-scale farming that could economically or politically displace small farmer production, then I cannot think of a more favourable institutional context, which would offer more benefits to small farmers but at the same time I would expect a very uneven distribution of benefits, consistent with the overall business system structure.

If global value chains would offer opportunities for leveraging to strengthen the local economy that would considerably increase its policy value. One of the fundamentals of GVCs is a global task division of labour, whereby different tasks are carried out at different locations across the globe. This in itself poses a serious constraint of the potential for LED that GVCs would have. Moreover, lead firms of GVCs are highly selective in where they will touch down, selecting those areas, which already contain market development and possess economic and physical infrastructures.

Certainly there are potential local effects in related and supporting industries and in learning new technologies and skills that allow local producers to apply experiences obtained in one GVC in other export or domestic product chains. However, a critical mass is needed for cluster development effects to emerge, both generating passive and active collective efficiency and assisting in diversifying the local economy from one chain to other product chains, increasing the local content and generating local value addition. A VC intervention, if successful, stimulates the local economy on a particular growth trajectory.

In mainstream policy and practice, standards are seen as the pivotal institutional arrangement to the upgrading of local producers. In relation to upgrading I looked at four different institutional arrangements, that shape VC development practices, namely i) standards, ii) producer collective action, iii) platforms for strategic coordination and iv) public/private partnerships.

Finally, value chain practitioners tend to look at VC institutional arrangements in isolation but if we look at the local context several issues come up. Firstly, there may be competition between different standards, but also competition from other types of institutional arrangements. Secondly, the institutional arrangements of a new chain may have knock on effects on existing local institutions and gendered struggles over land, labour and income have been observed in a number of instances. Thirdly, smallholders do not easily give up their autonomy to decide to whom to sell and when. Many returned to the local intermediaries and the pre-existing local institution. Upgrading may go hand in hand with immiserising growth, increasing stress arising from a mismatch or incompatibility between GVC institutions and existing local social institutions.

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Endnotes

¹ In the early nineteen nineties I had the pleasure of working with this donor committee which at that time was called the Donor Committee on Small Enterprise Development. The book *Small Enterprises and Changing Policies* was published in 1993 with a selection of papers of a conference that I organised in 1991 on behalf of this committee.

² In relation to the market economy, Chang (2002) proposed a classification of four sets of formal and informal economic institutions, namely, those that regulate who can enter, participate in a market or exit from it; those that define what are legitimate objects of market exchange; those that define the rights and obligations of agents in particular markets and fourthly institutions that regulate the exchange itself.

³ See for example Voigt, 2013 about “how (not) to measure institutions” and the debate on this.

⁴ Also within NIE a symbiosis between the macro perspective of North and the micro perspective of Williamson is yet to emerge, as noted by Ménard and Shirley (2014): “How do the (Northian) rules that determine the security and functioning of property rights or the laws that affect contract credibility and enforcement shape the choice of (Williamsonian) modes of governance and the ways to organise transactions?” (2014:559). The debate between NIE and social economists continues unabated among purists.

⁵ This also applies to different strands of historical institutionalism and institutional political economy as confirmed by Morgan (2007) and Hall & Thelen (2009)

⁶ Hall and Soskice recognize that institutional support in specific sectors and regions can confer additional advantages to particular firm strategies but they focus at the national level.

⁷ During the early nineties I was a resource person for the inter-governmental finance courses organised by the World Bank Institute in Uganda and I visited Kampala and other places on three of such occasions.

⁸ My colleague Prof Peter Knorringa is specialised in this issue.

⁹ VC manuals prepared by KIT and OxfamNovib squarely address this gender blindness.