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Capacity building for research: promoting inclusive development of agricultural value-chains, 1-3 September 2014

Governance, Coordination, Regulation and Control

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Outline

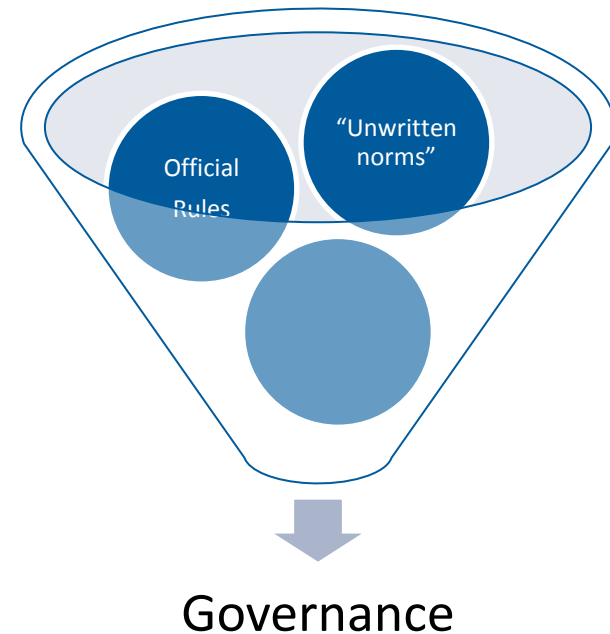
- Definitions of governance and its instruments
- The objectives of the governance analysis
- Steps in conducting the governance analysis including some (very) short group discussions

From mapping value chain

	Inputs	Production	Collection	Pre-processing	Factory processing
Inputs					
Activities					
Outputs					
Actors					
Participation of the smallholders					
Challenges					
Possible solutions					
Location					

Governance vs government

- Governance sounds like “government”?
 - Interpreted narrowly to include only the legal and regulatory requirements that influence business operation and market access in a value chain
- Governance - a system that links actors in the value chain together in a variety of sourcing and contracting agreements (adopted from Campbell and Parisotto 1995).
- This organised system allows competitive firms to **meet specific requirements** in terms of products, processes and logistics in serving their markets.



The instruments of governance

- Government regulatory frameworks
 - Eg enforcement of SNI or Indonesian national standard
- Contracts between value chain participants
 - Eg wholesalers' requirements to correctly harvest agricultural products to prevent damage
- Unwritten “norms” that determine who can participate in a market.
 - May originate within or outside of the value chain



The objectives of the governance analysis

- How the VC is coordinated
- Map governance instruments
- Assess the impact of the rules on different 'actors' esp disadvantaged
- Assess how different groups lack access to support for meeting standards

Why does governance matter?

Source: Humprey and Schmitz (2001)


- To assess market access
 - The chains that producers feed into are often governed by a limited number of buyers
- To identify upgrading prospects
 - Producers that gain access to the chains' lead firms tend to find themselves on a steep learning curve
- To improve distribution of gains
 - Considering barriers to entry, actors' competencies to govern, etc.
- To identify rationale for public or private intervention
 - Considering access to information, access to credits, market competition, etc.

Nature of 'data' needed in the governance analysis

- Difficult to capture issues in a fixed-format questionnaire.
 - Data required might be of qualitative nature.
 - Open-format and intensive interviews with VC participants and key informants esp when approaching an unfamiliar VC.
- We will discuss in more details tomorrow

Step#1: Map actors

1. Tool#1 - Identify all actors (within and outside the VC) that are potentially able to influence governance structure;
 2. Identify other **external** organisations and institutions through interviews with key actors in the chain – primarily be held with major players
 3. **Classify** into different categories:
 - Wealth (poor, average, better off);
 - Business type and scale (micro, small, medium, large);
 - Ethnicity
 - Gender

→ The categories can be useful to assess the level of information asymmetries along the chain.
- 

Pro-poor
analysis

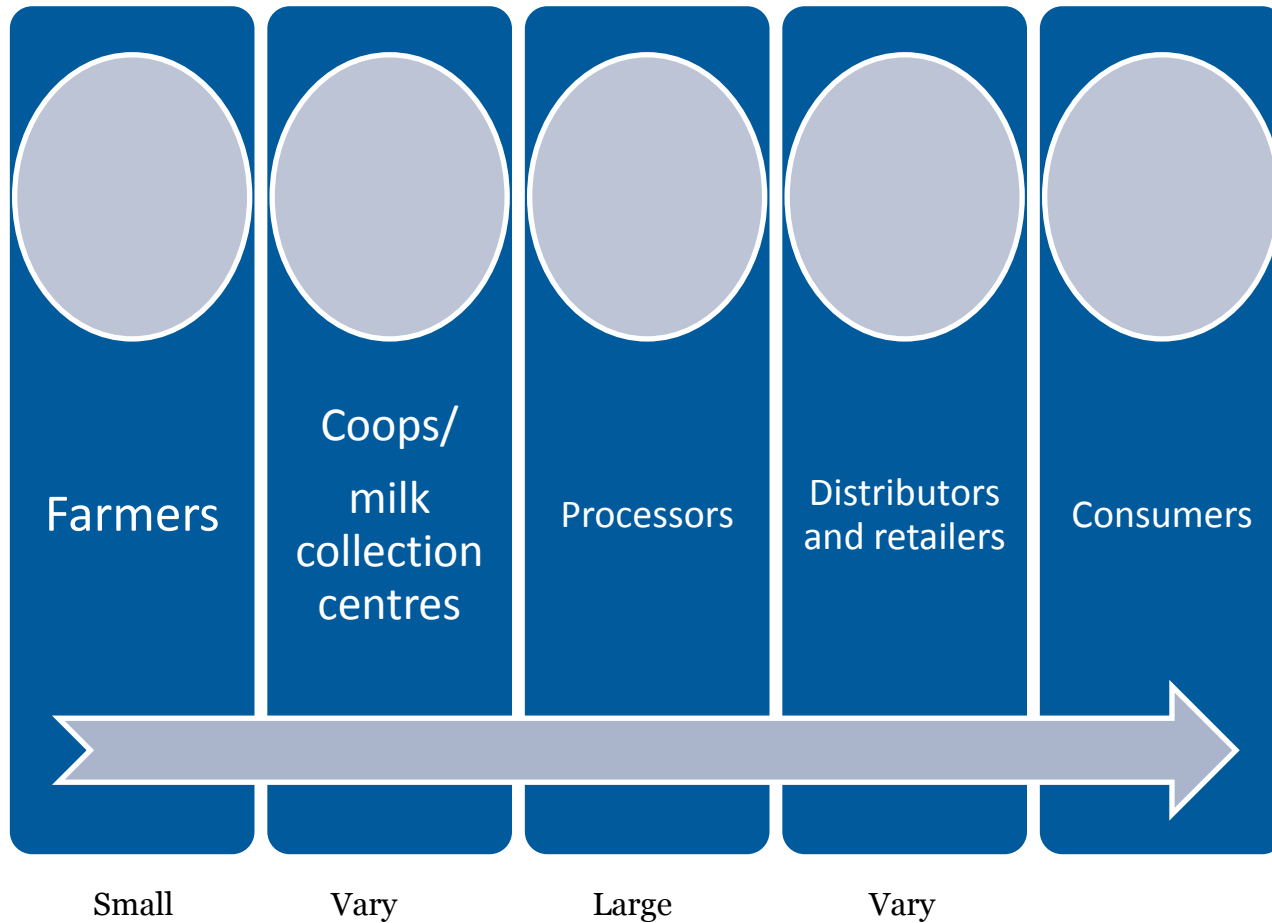
OUTPUT: Table (list of actors) and Chart (categories)

One-minute discussion

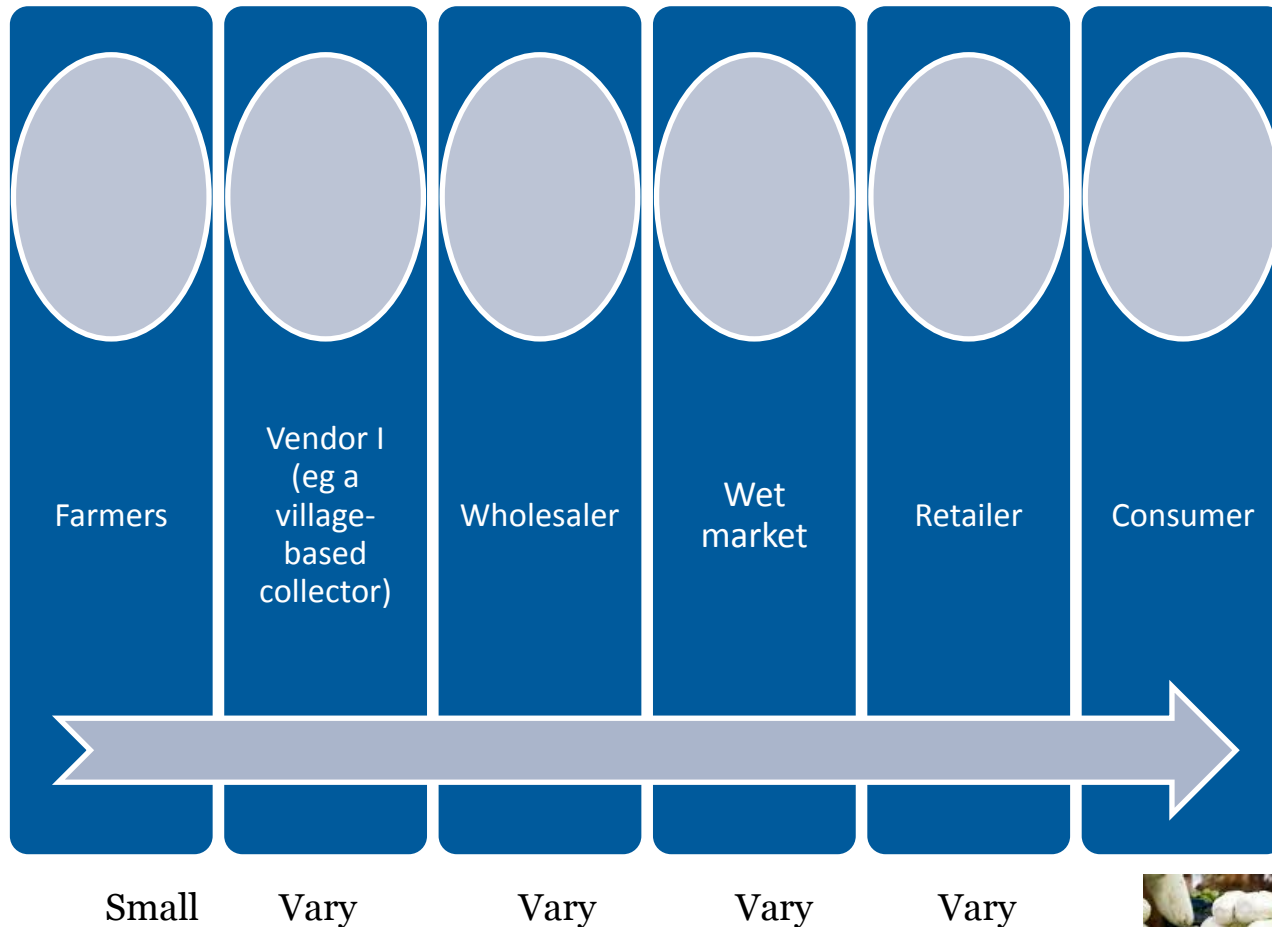
- Actors in dairy value/hort chains in Indonesia would include



Dairy industry



Fruits and vegetables: traditional VC



Step#2: Determine the demand and supply conditions of the value chain

- Map out the demand and supply conditions throughout the year
- Practical aspects to be considered:
 - Change in number of buyers and sellers;
 - Who sets the price? Does this change overtime?
 - Are there any formal and informal ‘governance instruments’ and external factors that affect the pricing setting behaviours?



Two-minute discussion

The screenshot shows a news article from Kompas.com. The main headline is "Pemerintah Minta Harga Susu Tidak Ikut Harga Dunia" (Government Asks Milk Prices Not to Follow World Prices). The article is dated Wednesday, March 3, 2010, at 16:15 WIB. The author is identified as PASURUAN, KOMPAS.com. The article discusses the government's desire to maintain a balance in the local milk market, preventing it from following global price fluctuations. It mentions that the local industry is currently struggling with price volatility and that the government wants to protect local producers. A quote from the Minister of Industry, MS Hidayat, is included, stating that the government will not follow market fluctuations and will instead focus on maintaining margins for local producers. Another quote from Nestle's Director in Indonesia, Arshad Chaudhry, is also present, where he states that Nestle will consider market fluctuations but will ensure there is a margin for local producers. The article also mentions that the government will set milk prices based on the quality of fresh milk and the number of bacteria (total plate count/TPC), with a target of below one million TPC.

Terkait

- Bibit Sapi Perah Akan Ditambah
- Malaysia Meminati Susu Indonesia
- Susu Lokal Hanya Penuhi 20 Persen Kebutuhan
- Nestle Butuh Tambahan Susu Segar
- Pemprov Susun Rencana Induk Perkeretaapian

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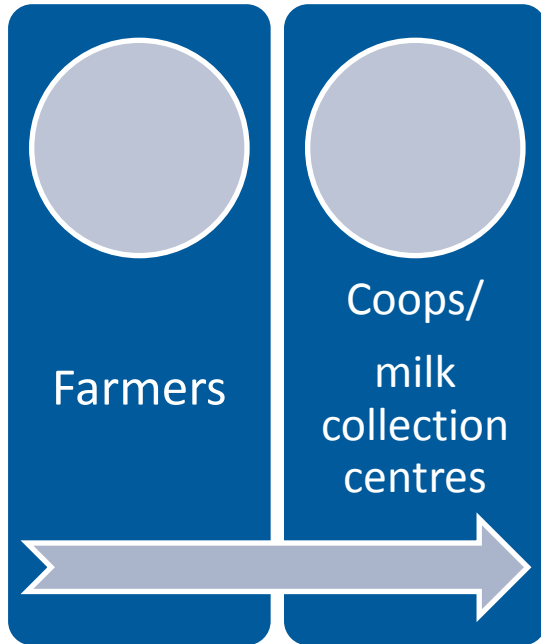
0 g+1

- Determinants of fresh milk prices would include ...
- Determinants of [your focus horticulture commodity] would include ...

Determinants of agricultural commodity prices

- Factors affecting supply eg technology, weather, diseases, fuel costs, input costs, etc
- Factors affecting demand eg population growth, income growth, dietary changes and tastes, etc
- Also:
 - Place of sale (location / market)
 - Type of product (commodity, differentiation)
 - Product quality
 - Packaging
 - Time of sale
 - Processing
 - Storability
 - Marketing/contracts
 - Market Structure
 - ***Policy, rules, regulations***

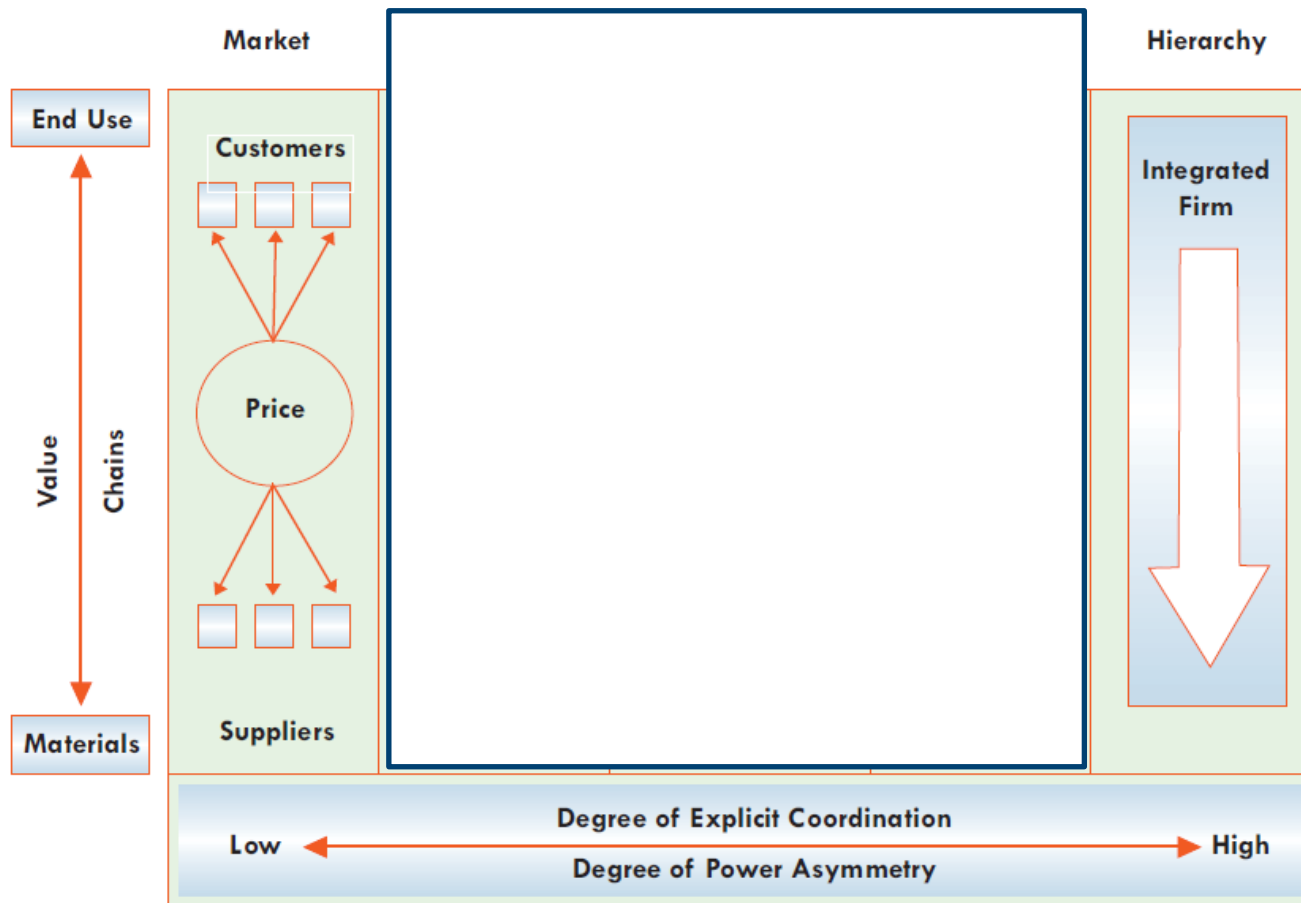
Dairy industry: Understanding the demand and supply conditions of the value chain



- How volatile is the farmers' milk production?
- Do farmers have ability to ensure consistent supply to coops?
- Do coops have ability to ensure consistent supply to processors?
- What are factors explaining change in demand for fresh milk from processors?
- Is there any agreement between farmers and coops to ensure consistent supply of fresh milk?
- Will farmers get 'penalty' when they are unable to supply fresh milk at an agreed minimum amount?
- Is there any support for farmers to ensure consistent supply of fresh milk? Who provide this support?

Step 3: Determine the dominant coordination arrangement(s) in the VC

- Every value chain has a system of coordination
 - ie formal and informal arrangements between participants.
 - Evolving coordination structures:
 - To allow firms to fulfil the competitive requirements of intermediate and final markets
 - To ensure compliance with official or unofficial rules and standards
 - To make better use of capital investments
- Types of coordination structures vary from market-based trading structures to vertically integrated



Source: (Gereffi, Humphrey et al. 2003)

Various VC models

- Different number of suppliers
- The presence of lead firms:
 - most directly accountable for the configuration of production systems and for enforcement of rules
- There may be more than one system of coordination operating in a single value chain in any given area eg where independent and contracted producers exist side by side

Fresh fruits and vegetables: Traditional vs modern VC



Supermarkets set the guidelines for grades and standards for vendors



Two-minute discussion: Coordination

Some practical questions:

1. Do farmers deliver output to markets or do they deliver through middlemen?
2. Do farmers sign contracts with traders to supply at agreed prices in the future?
3. Are there arrangements where traders own or control more than one production stage?
4. Are farmers and traders engaged in any form of collective action such as cooperatives or marketing groups?

Source: USAID (2008)

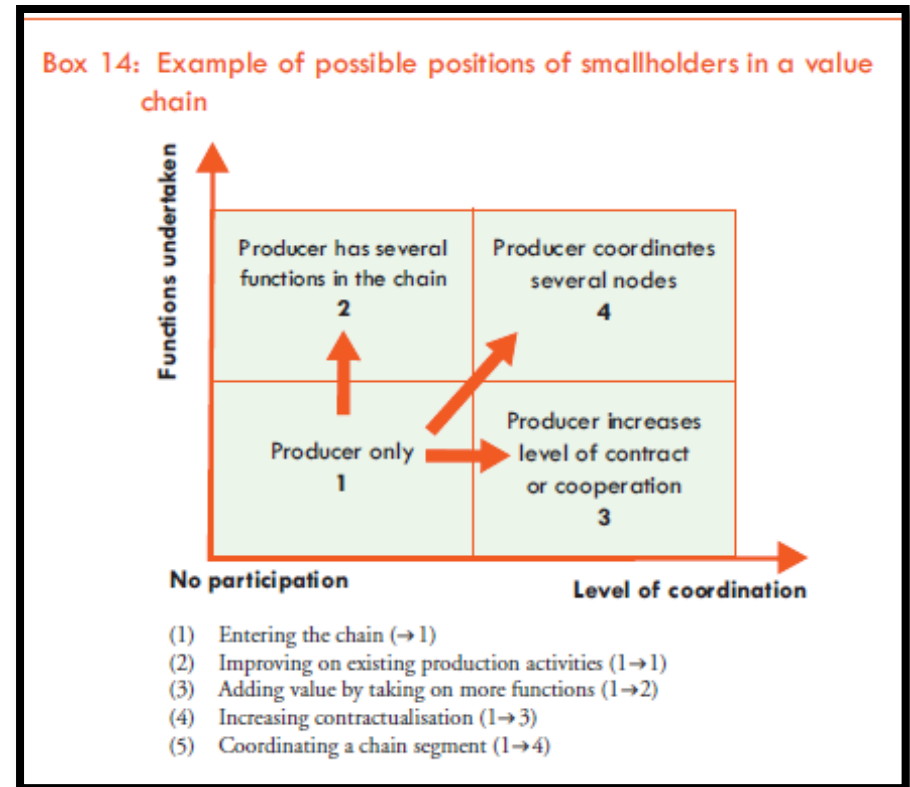
In the dairy/hort industry context:

1. ...
2. ...
3. ...
4. ...

Step 4: Analyse how target populations participate in the value chain

Two useful dimensions:

1. Functions in the VC
2. Formal coordination eg contracted input provision, marketing, certification, contract farming, also producer-driven formalisation of collective activities (associations, groups, etc) to reduce costs, increase revenues or reduce individual risks.



Example: VC Participation

Fruits and vegetables VC

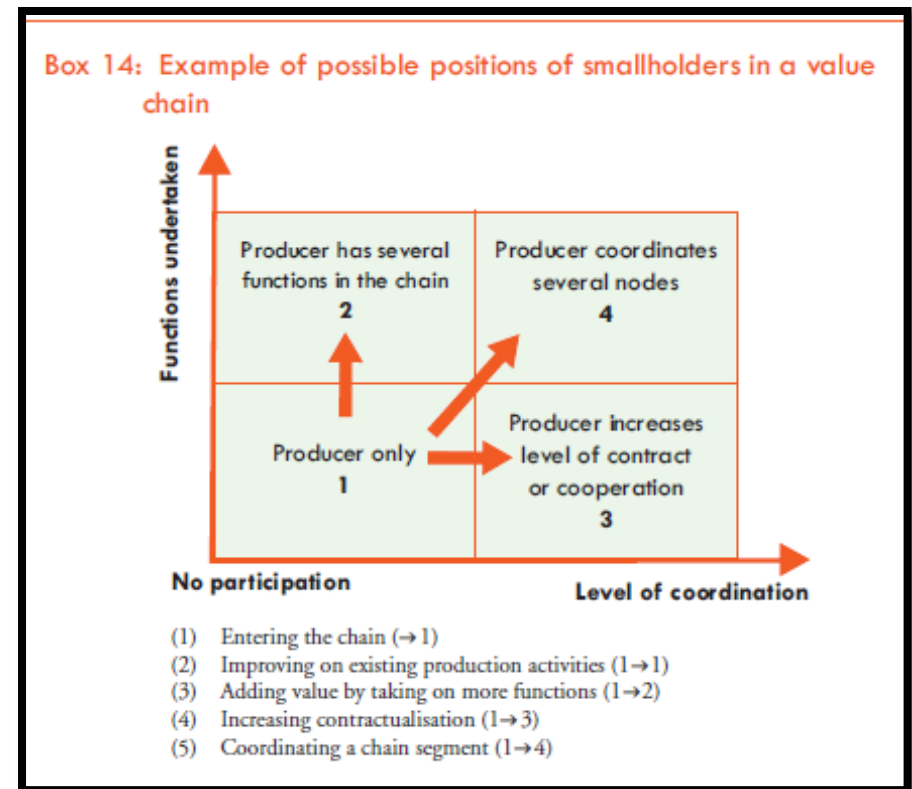
- In fruits and vegetables VC, the vendor establishes a contractual relationship with a supermarket chain.
- Supermarkets maintain grades and standards in procurement.
 - For each fruit and vegetable, there is a specific grade and standard requirement and vegetable procured locally must conform to this.
 - To ensure desired quality, supermarket chains usually monitor both on-farm and off-farm activities by controlling various aspects eg fertiliser applications, quality of seeds, harvesting and post-harvesting handling techniques.

Dairy VC

- In dairy VC, the cooperative establishes a contractual relationship with one or more processors.
- The processors maintain grades and standards.
 - Some common parameters: fat, TPC, no antibiotic, no carbonate, PH level, acidity, etc.
 - To ensure desired quality, processors may provide some technical assistance to farmers.

Case study: MAS dairy farmer group in Sukabumi

- Group leader- initially a traditional dairy farmer; reliance on coops;
- Add processing activities (ie producing yoghurt, etc) – from (1) to (2)
- Involve other smallholder dairy farmers – from (1) to (4)



Step 5: Identify rules and regulations

Generating a clear understanding of:

- **WHAT**- The rules that influence actors in the VC;
 - Detailed sets of instructions related to cost, quality, processes, delivery times, etc.
- **WHO** - The actors that set the rules;
 - Also how the rules are communicated
- **WHY** – The reasons behind the rules;
- **VARY** – How the rules affect different categories of actors within the VC
 - Per
- **KNOW** – How much different actors know about the rules
- **CHANGE** – The rate of change of the rules
- **FAIL**- What the consequences of failing to comply

Data collection: Rules and regulations

Rules	What	Who	Why	Vary	Know	Change	Fail
Quality standards:							
Labelling							
Certification (including voluntary)							
Market participation							



INFORMASI NILAI GIZI

Takaran Saji 1 Kotak (125 ml)
Jumlah Sajian per Kemasan : 1

JUMLAH PER SAJIAN
Energi Total 100 kkal
Energi dari Lemak 25 kkal

		%AKG*
Lemak Total	2.5 g	4 %
Lemak Jenuh	1.5 g	8 %
Kolesterol	5 mg	2 %
Protein	4 g	7 %
Karbohidrat Total	14 g	5 %
Gula	8 g	
Natrium	25 mg	1 %
Kalium	200 mg	4 %
Vitamin A	10 %	Vitamin B12 15 %
Vitamin C	4 %	Kalsium 15 %
Vitamin D3	15 %	Zat Besi 2 %
Vitamin B1	15 %	Magnesium 8 %
Vitamin B2	15 %	Fosfor 15 %
Vitamin B3	8 %	Selenium 6 %
Vitamin B6	10 %	

* Persen AKG berdasarkan kebutuhan energi 2000 kkal. Kebutuhan energi Anda mungkin lebih tinggi atau lebih rendah.

Mengandung Biotin 3.4 mcg, Inositol 6.4 mg, Kolin 23 mg, Klorida 110 mg dan Tembaga 4.4 mcg per sajian.

Komposisi: Susu Sapi Segar, Sukrosa, Susu Skim Bubuk, Bubuk Coklat, Penstabil Nabati, Perisa Artifisial Coklat, Garam

Step 6: Analyse the impact of rules on value chain participants (including enforcement, rewards and sanctions)

- **ENFORCEMENT:**
 - The monitoring at different stages of the VC
 - The sanctioning system which can include both sanctions and incentives/rewards.
- Though government regulatory capacity may be important to enforcement, it is *not* exclusively, or even principally, a government function.
- Lead firms may have significant enforcement power eg to exclude non-performing farmers from chains by revoking contracts or reducing prices.

Data collection: Enforcement

Monitoring

- The frequency of inspections received by each actor from the differing monitoring agents

Sanctioning

- The frequency with which each actor has been subject to specific forms of sanctions

Step 7: Analyse target sector knowledge and awareness of rules, norms and standards, and identify key gaps

- Issues: lack of understanding; rules are not written and may vary within and across market areas; often change in response to market offerings.
- To assess **the level of transparency** in monitoring and enforcing the rules.

Some relevant questions

- Are quality requirements clearly **set in contracts** and translated in an explicit set of parameters that cannot be subject to discretionary interpretations?
 - Are independent parties involved in the **monitoring** process, or is it totally managed by powerful actors?
- Discretionary quality controls coupled with power asymmetries can result in a monitoring system that disadvantages smallholders and may result in corruption.

Step 8: Analyse how information and services are provided internally through the VC and externally

- Services= assistance to other VC participants, to help them meet the requirements of rules and regulations.
- Provided by actors within or outside the chain.
- The main focus of service analysis:
 1. To understand by whom VC participants are supported in achieving competency and compliance with rules.
 2. To assess whether the level of support is adequate to the requirements of VC upgrading.

Data collection: Services

Types of services	Provider	Available for different VC actors	Degree of satisfaction with the services	How to improve

Recap:



References

Main reference:

- MP4 (2008). Making Markets Work Better for the Poor Making Value Chains Work Better for the Poor: A Toolbook for Practitioners of Value Chain Analysis, UK Department For International Development, 2014(Available from URL: http://aciar.gov.au/files/node/14580/making_value_chains_work_better_for_the_poor_a_to_14413.pdf)

Additional resources:

- Dolan, C. and Humphrey, J. (2000). Governance and Trade in Fresh Vegetables: The Impact of UK Supermarkets on the African Horticulture Industry, *The Journal of Development Studies* 37, 147-176.
- Humphrey, J. and Schmitz*, H. (2001). Governance in Global Value Chains, *IDS Bulletin* 32, 19-29.
- Morey, P. (2011). Dairy Industri Development in Indonesia, International Finance Corporation. Available from URL: <http://www1.ifc.org/wps/wcm/connect/93f48d00470e3bf883ffd7b2572104ea/Dairy+Industry+Development-2011.pdf?MOD=AJPERES>

- Terima kasih.
- Any questions?
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