MICROLINKS SEMINAR SERIES

Exploring Frontiers in Inclusive Market Development

Can Public-Private Partnerships Actually Benefit the Poor?

Audio Transcript

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PRESENTATION

Kristin O'Planick: I'd like to welcome everyone this morning, especially our online participants, who I understand are growing in numbers by the minutes, so welcome to all joining us remotely. Just so that you know, we had a bit of an unprecedented situation here, where we actually had to cut off registration for this event, because it got way too enormous. So if you know of colleagues that were unable to register and wanted to be here, please remind them that in about a week or so, we will have the screencast available online, and they can still partake of the seminar that way. And unfortunately, we just have capacity both in the room and in the online room as well that we far surpassed in reservations.

So please be reminded to silence your phones if you're here with us live. And – okay.

So this morning, we're talking about global value chains and public-private partnerships. So global value chains are the reality of the context in which we work. Their dynamics influence the possibilities for development and present many opportunities for these public-private partnerships, which USAID and other donors have been pursuing for years, and USAID especially has been very actively pursuing these recently.

While much of the work that has been done to date captures the good practice for forming these types of partnerships, the metrics around the outcomes has always been the trickier piece of it. We keep trying and trying, but that's just – you know, metrics are always hard, right?

So we know that these partnerships often result in economic growth, which is great, but explicit evidence on their outcomes for the poor is still in question, which of course is really important for us, as we emphasize the various ways to leverage private capital going forward. We want to ensure that there are these significant and sustainable outcomes for the poor.

So today, our colleagues from Duke University Center on Globalization, Governance, and Competitiveness will present their latest findings in this area from three case studies that they've recently done as part of USAID's Leveraging Economic Opportunities project.

So our speakers today include Gary Gereffi, who is a professor of sociology and director of the CGGC at Duke University, and Gary is a long-time friend of USAID, and has been working with us for many years on global value chains, and his research has been very valuable to the work that we do, so we're glad to have him back with us again. If you're interested in his prior work with Microlinks, go to the website and check it out. It's still very valuable.

Recently, he's completed a three-year project on economic and social upgrading in global value chains financed by UK's DFID. And he is currently working on global value chains in emerging economics and new methodologies for measuring value chain upgrading. We'll be very interested in what you find on that, Gary.

Also with us is Ajmal Abdulsamad, who is a researcher at the CGGC. He has over 13 years of experience working for international development organizations and the United Nations. In Afghanistan, he led multidisciplinary teams, including providing advice and capacity building support to stakeholders, ranging from community development councils at the village level all the way to high level government officials. His recent research focuses on predominantly agricultural value chains.

And then joining us remotely from the team is Shawn Stokes, and he will be phoning in for Q&A, and also actively participating in the chat, for those of you that are online. So you have him as a handy resource. Shawn has over ten years of experience in research evaluation and project management. Since 2009, he has worked as a research analyst with the CGGC. He is a former Peace Corps volunteer from Ecuador, where he promoted small business development of value added projects made from organic coffee. And his recent work has focused on the inefficiencies in food and agricultural value chains, including those of Mexican wild caught shrimp, Brazilian beef, Iowa corn, and Louisiana oysters.

All right. I will turn it over to our speakers. Thank you.

Gary Gereffi: Thank you very much for the introduction, Kristin. Good morning, everybody. It's a pleasure to be here, and thank you all for attending.

As Kristin mentioned, the overall project that this study grows out of is USAID's Leveraging Economic Opportunities, but the specific project we worked on in the context of this research was called Private Sector Engagement as a Poverty Reduction Strategy. And that is the theme we're really interested in here. Everybody in the donor community has been working for a number of years to figure out how to get the private sector more directly involved in development projects, and I think public-private partnerships have emerged as one of the most popular vehicles to do that.

And in the context of the research that Ajmal, Shawn, and I carried out and will report on today, it's clear public-private partnerships are important, but they're also extremely heterogeneous, and we have to really try to figure out under what conditions they can actually lead to poverty reduction outcomes. So that's why we've got the title, can they actually benefit the poor, and how does that work?

So for this presentation today, I'm going to just give a brief introduction from the global value chains side in terms of how and why we have framed this study within a global value chains perspective, and then Ajmal is going to give the main presentation that will discuss the research on the public-private partnerships and the specific case studies. As Ajmal will explain, this project covered – looked at 135 different public-private partnerships sponsored by a number of donor organizations, and out of that we selected three particular case studies to focus on for today.

We'll be looking at cocoa in Indonesia, horticulture in Kenya, and coffee in Rwanda. And we wanted to try to show some of the varied outcomes we get by digging into those particular cases. Soon, the full report will be available for everybody to look at. We'll have it on the Duke CGGC website. We'll also want to post it on Microlinks' website for value chains. So it'll be easy to find it, and I really encourage people to look in detail at the kind of findings that we're going to just briefly highlight this morning.

So in terms of global value chains and development, just a couple of orienting comments. Global value chains as a framework got started in the mid-1990s under the term global commodity chains, and then in the 2000s and 2010s, the framework was really developed pretty extensively by a group of academic researchers who were working in very close contact with development agencies and countries around the world.

And now recently, international organizations of all sorts have been using global value chains as a framework for many of their donor projects. And in a recent report by UNCTAD, they indicate that global value chains account for up to 80 percent of world trade.

It's just useful for us to kind of zero in, what exactly are global value chains? In the old world of trade, individual countries made and exported goods and services from one place to the rest of the world. In this new world of trade, which is represented by global value chains and global production networks, goods – factories cross borders. Goods are typically made in more than one country. And so what global value chains are trying to look at are these cross-border production networks that produce goods and services.

One of the main indicators people now use is that intermediate goods trade is actually larger than final goods trade by a considerable order of magnitude. So when people talk about global value chains, what they're talking about are products that are made in more than one country where intermediate goods are used in final product export.

So in terms of some of the new data sets that are out there, like OECD World Trade Organization Trade and Value Added, one of their key findings or key indicators of global value chains is what percent of exports used imported inputs, and that's just a way to think about global value chains.

From the point of view of developing countries, what they're trying to do is capture larger shares of value added in these global production networks. Now it's around 30 percent of GDP in developing countries is made up of value added trade, and a big part of what we will talk about as upgrading is developing countries trying to capture larger shares of value added, especially in high value activities rather than the low value activities.

But a couple of changes have been occurring as well that make it harder for developing countries to do this. One is that within global value chains, there is a consolidation and fewer larger suppliers. When you talk to the lead firms or the multinational companies that head up a lot of these value chains, they're constantly talking about streamlining their supply chain, meaning they want to work with a smaller number of larger, more capable suppliers.

And in a case like Nike that might have 950 suppliers around the world, and they say they want to go back and look at 40 or 50 to work with, you can see the dramatic pressure that that puts on the supply chain.

There's also geographic consolidation, which we'll hear about. In many industries, a smaller number of countries are accounting for a larger share of the exports. So when we think about implications, on the one hand, there are plenty of opportunities for public-private partnerships that are trying to take advantage of these cross-border production networks. On the other hand, it raises lots of challenges for small/medium enterprises, smallholder farmers, small countries, in terms of if global value chains are becoming more consolidated, how do you enter, and then how do you move up the chain in a sustainable way?

So those are the questions we're addressing, and one of the key themes of new recent research on global value chains, which Kristin alluded to in that study on capturing the gains that was financed by DFID, is people are really now trying to figure out how do you link economic upgrading, which traditionally has been defined as export growth, employment growth, etcetera, to social upgrading, which can be defined in various ways, but at a minimum, it means improving conditions of work, higher quality jobs, not just more jobs, and increasingly, a lot of attention to environmental upgrading.

So the kind of dependent variable, the development side of the equation, has definitely been broadening to include economic plus social plus environmental. When the global value chains framework was being created in the 2000s, the original idea was to figure out how do we link global and local. Global among the research community often meant the structure of global industries or global commodity chains or global supply chains, linked to what's happening in local clusters around the world, which is where a lot of the focus in terms of what developing countries were doing was centered.

And so what the global value chains approach or framework has tried to do is to fill in the gaps between global and local and creating a framework that allows us to move up and down in terms of talking about global trends, regional issues, national dynamics, or local dynamics, using the same terminology, the same kinds of questions.

And the two core concepts we use in the framework, if we're looking at global industries from the top down when we're talking about the organization of global industries and who has power in them, we use a governance typology – I'll say a word about that – governance structures of global industries. When we're looking at the global value chains from the bottom up, the countries that are trying to get involved, local firms, export groups, we use concepts related to the notion of upgrading.

So governance and upgrading are sort of the two master concepts or literatures in the global value chains approach, and we'll refer to both of them in this study. In terms of trying to identify what governance structures and the global economy look like, this typology that was – came out of an article that John Humphrey, Tim Sturgeon, and I published in 2005 in *RIPE*, the journal *Review of International Political Economy*. This has sort of been a typical way to think about international markets.

The important thing here is to realize that traditional markets, where you had lots of buyers and sellers, nowadays is really only a small piece of what goes on in the global economy in terms of how industries are organized. And so there was a classification about markets' hierarchies – hierarches are vertically integrated firms or industries – as two poles in terms of market structure, and in the middle, different kinds of networks or production networks.

And the global value chains approach, other than the competitive market structures, all the other forms of governance involve lead firms, lead firms being typically multinational companies that could be located in different parts of a value chain. They could be located on the retail side, the input side, or the production side.

But all of these lead firms, these different types of governance structures, imply power asymmetries between the lead firm and local suppliers, and that becomes critical to the cases that Ajmal is going to introduce, because the challenge for developing countries or suppliers is how do you deal with those power asymmetries in a way that permits good development outcomes?

One note. When we look at these kinds of typologies, it's interesting that all of those governance structures often exist in the same industry. Certainly, they all exist in agriculture. If you think about markets and let's say weekly farmers' markets, that comes close to a lot of buyers and sellers, small scale, where price and quality determines outcome. If we think about hierarchy, vertically integrated governance structures, we might think about traditional plantation agriculture.

But all these other types actually become important for our cases as well. Captive governance structure, where a lead firm works with a lot of smaller companies that are dependent on it, is very sort of typical of the outgrower schemes we see in agriculture, where certain kinds of smaller farmers are contracted by a bigger player to produce for them. Relational governance structures, as you'll hear, is sort of typical of something like the specialty coffee market, where buyers and sellers, let's say the coffee brands like illy café and the smallholder growers are constantly in touch with one another about how to improve quality, how to improve delivery schedules, and things like that. So that's a more balanced kind of a system.

And even this modular governance structure, which when it was first introduced referred to electronics and the sort of key sub-assembles in electronics, like displays, monitors, hard disk drives, is also very important in agricultural and upstream markets. We have modular structures for input suppliers, like fertilizers, seeds, machinery. And we also have it in downstream markets. We've got big supermarkets and category managers dealing with different kinds of growers.

So all of these types of governance structure are relevant in the cases that we're going to be talking about here, especially in agriculture more generally. And final slide before I turn it over to Ajmal, when we think about upgrading from a country perspective, we really try to make the point that you need to understand the position of the firms you're looking at inside a broader value chain. And all the cases that you're going to hear about come from agriculture, as I mentioned earlier. And if we had sort of a generic kind of agriculture value chain represented by the arrows in the middle, there's three types of position that you'll be hearing about in these particular cases.

Some of the public-private partnerships we're going to talk about are focusing on leveraging new relationships with brand manufacturers or retailers in the consumer country for the particular products we're talking about. So we'll call that a downstream location in the value chain.

In other cases, the public-private partnerships are focusing on the export side of the equation, improving productivity and yields on the – by the lead exporters or local exporters. But also, there's a third category that we talk about is vertical relationships, where the focus is on global traders or processors of agricultural goods. So keeping in mind, we've got three different kinds of leverage points in the chain in terms of how you would actually get change.

And that's the key point about the power asymmetries. Power asymmetries exist, but you can leverage some of those asymmetries in terms of development outcomes if you focus on these key actors, the brand manufacturers, the retailers on the consumer side, global traders or processers in the middle part of the chain that link producer countries and consumer countries, but also the exporters on the upper end of the chain.

And by finding the right kinds of companies or partners to work with, then you can create more space for the kinds of pro-development poverty reduction outcomes we're interested in. So at this point, let me turn the floor over to Ajmal, who will take us through the three public-private partnership case studies we're going to focus on today.

Ajmal Abdulsamad: Good morning, everyone, and welcome again to our presentation today. In the beginning, I would like to go briefly over the research objective and our methodology. As you heard from – by Gary's presentation, our overall objective was to see whether public-private partnerships can actually benefit the poor. In addressing this overarching question, we examined three main debates surrounding the potential of public-private partnerships.

First, the alignments of business and pro-poor interests. There has been a lot of discussion about size of firms. Is it good to partner with large firms? Some are saying it's good to partner with small firms. But we moved this discussion beyond the size of firms, and we're suggesting that the position of a firm along the value chain influences their commercial interest for pro-poor development outcomes, and that is also related to GVC governance that Gary talked about in detail.

The second debate is about the actors and institutions that really determine how does global production systems or global value chains operate, and then the outcomes that are possible to achieve within this global production system that's characterized by asymmetries in power relationships, and there are also areas where – offer leverage or opportunities to leverage the capabilities of private sector to achieve pro-poor development outcomes.

As for our methodology, we conducted the research in identifying public-private partnerships cases in three phases. In the first phase, we selected export-oriented agricultural value chains, and this partly was related to where USAID's investments lie as our client. And the three sectors that we selected were coffee, cocoa, and horticulture.

In the second phase, we mapped donor programs that financed public-private partnerships, and within those programs, we identified 135 public-private partnerships, and we've categorized those 135 based on the nature of intervention. And the – and in a third phase, we selected three partnerships cases from that pool of 135, and of course, as Kristin mentioned, there is issues of measurement, there are issues of reporting on outcomes, so availability of information and reports was also a major driver in selection of these cases.

One of the three cases is related to the cocoa sector in Indonesia, and the partnership that we looked at was financed by agribusiness market and support activity program best known as AMARTA, and was implemented during 2006, 2011.

Just to mention that USAID used government agencies, including US Department of Agriculture, financed successful sustainable cocoa enterprise solutions for smallholders [audio glitch] in this program, and there are interrelations between these two programs in terms of their objectives.

So cocoa sector in itself offers significant poverty reduction potential. There are five million smallholders who are producing over 90 percent of cocoa globally, but they're not able to realize the full potential of revenue from cocoa production. Two trends affect this potential.

First, as related to the local organization of the value chain in producing countries, in Indonesia, there are tiers of local collectors that before cocoa beans reach exporters, they're exchanged between several intermediaries who do not have any incentive to compensate quality, so they pay the same price for good quality cocoa, and often mix those beans collected from several smallholders, which varies in quality, and sell it to next buyer.

So a critical issue in that local value chain is that quality control mechanism lacks market signals. So that's why farmers are not interested to invest in their cocoa farms and adopt improved technologies in farming practices.

But there is also a global trend that started in late nineties, and that's exactly the time where Indonesia emerged as a major global cocoa producer, and that is transition in governance of global cocoa value chain from a market to a more modular system, and also, deregulation or liberalization of markets in major cocoa-producing countries in West Africa.

So at the bottom of the slide you see the cocoa value chain, and smallholders are positioned primarily in that first segment, cocoa production, but the midstream sections, trade and processing, as over time become increasingly vertically integrated and are dominated by three large firms.

The next segment, brand chocolate manufacturing, this is the segment where firms which has consumer-facing products and have significant potential to govern the social and environmental impact of their supply chains, are positioned. So with these transformations, increasing consolidation in downstream segments of the value chain, global cocoa markets also experienced a long term cyclical decline in cocoa prices, and also increased volatility in market price of cocoa.

So AMARTA tried to establish a market-based quality system at a farm level, partnered with two firms positioned in trade and processing segment of the value chain, Blommer Chocolate Company and OLAM International. And the goal was to establish a quality link to premium prices, so farmers get incentive to improve quality and invest in their farms.

What they didn't do was they didn't include brand manufacturers in these partnerships, where they have significant commercial interest to invest in these partnerships.

In terms of outcomes, just to remind ourselves that this is not an evaluation of AMARTA program. AMARTA worked on multiple value chains, and cocoa was one of them. And in relation to our cases, that is, we looked at three questions: how they identified the partners, what segments of the value chain they partnered with, and what were the outcomes achieved.

In terms of outcomes, at that scale, around 2,000 farmers compared to 1.4 million farmers in Indonesia, they've increased yields. Farmers received some premium prices, although variable. And also, the buying stations that these two firms directly established to the farm amounted to purchase of 62,000 tons of cocoa during the project period.

But in terms of sustainable inclusion, we found that this partnership didn't result in sustainable inclusion or sustainability of the outcomes, that even at that small scale, the project delivered. First, premiums are not guaranteed. Even in third party certification schemes, a small share of cocoa – certified supply actually is marketed in certified markets and received premium price. Two-thirds of it are marketed in conventional cocoa prices, where there is significant price volatility. And some of those small gains in terms of increased productivity can easily be eroded.

So in terms of scale also, although this project might have contributed to small pockets of success or – in terms of the significance of cocoa production in Indonesia, those face significant challenges in terms of reaching scale needed.

The second case that we looked at relates to horticulture sector in Kenya. Same as cocoa, horticulture offers significant potential for poverty reduction. Smallholders traditionally have – were competitive suppliers in horticulture sectors in Kenya, and Kenya had a long-established history that goes back even to mid-20th century in exporting horticulture to European markets.

The same as cocoa, there are significant trends downstream in markets. Beginning in the nineties, the retail markets in Europe became significantly concentrated. Supermarkets emerged as key actors in these vertically oriented value chains, and governance shifted from a market-based system, where intermediaries like wholesalers also played a significant role in those markets, to modular relationship, where retailers directly worked with small number of exporters in these producing countries, and sourced their fresh produce needs.

And the challenge for smallholders as a result of these changes in governance and value chain were in two areas. First, introduction of increasingly stringent buyer requirements, including EurepGAP, which was – set a deadline of 2005 for all suppliers exporting to Europe retail market or supermarkets, put additional demand and costs on the smallholders.

Second, it resulted in very tight contractual relationship between exporters and retailers, which make entry to either actors very difficult.

So again, for this case, Kenya horticultural development program partnered in two segments of the value chain. First, the production for exports partnered with smallholders, development NGOs or development agencies there, and also with export firms. They formed 86 partnerships.

But again, this partnership didn't involve retailers, who had the power to define these buyer requirements and rules, and had the power to sanction violators, and also significant commercial interest in terms of governing their supply chains.

In terms of outcomes, the KHDP partnership case measurement of outcomes was much more difficult compared to the cocoa sector in Indonesia. There was multiple donor programs which were parallelly ongoing and targeting the same objective of assisting smallholders to meet EurepGAP compliance requirements. So attribution of individual outcomes to individual partnerships is significantly different. But at the aggregate level, these partnerships contributed significant achievement in terms of industry growth, in terms of yields, in terms of investment, and in terms of exports. Horticulture exports in Kenya expanded and diversified, despite all those stringent buyer requirements of downstream actors.

But it was very difficult for smallholders to participate over long term in these markets. First, certification was part of those stringent requirements, but buyers had those dynamic demands and the standard quality requirements put additional costs on smallholders in terms of running an operation cost beyond that initial investment cost to get certified, and made it difficult for smallholders to continue to participate in these chains.

And actually, 60 percent of those certified smallholders that once became EurepGap certified and was part of the chain was either dropped out by the exporter or opted out to participate in these export chains.

But in terms of poverty reduction, I think this case illustrates also another interesting dimension of the horticulture sector value chains, is that it offers significant potential in terms of off-farm employment opportunities in packing houses, in processing plants, where if poor, landless, or smallholders have the right type of skills and have the bargaining power, and there are regulatory measure to protect worker rights, these off-farm employment opportunities can have significant poverty reduction impact in those areas.

So the third case relates to coffee sector in Rwanda, and that – this case was financed by Sustaining Partnerships to Enhance Rural Enterprise in Agribusiness Development, or SPREAD. And this program was also implemented during 2006 and 2011. But the story of upgrading of coffee sector in Rwanda would not be complete if we do not mention the preceding programs that really set the direction and chart the upgrading trajectory for Kenya's – for Rwanda's coffee sector. And this was PEARL, Partnership to Enhance Agriculture in Rwanda through Linkages, and also ADAR, Agribusiness Development Assistance to Rwanda, and even a food security program implemented by ACDI/VOCA.

So this partnership illustrated that if there is a long-term approach, a flexible approach, and if donors partnered or development agencies in general partnered with the right type of firms, it is possible to combine growth and poverty reduction objectives, even in context of post-conflict situations, which offers – which has its own problems in terms of underdevelopment markets, in terms of weak institutions, and all issues in terms of dependency on aid and low private sector capabilities.

So Rwanda, small country which has one of the highest population density in sub-Saharan Africa, was producing coffee for a long time. But coming out of the conflict, there were several challenges. Farmers were leaving cocoa – coffee production. There were issues of poor quality. Coffee washing stations, which is the immediate post-harvest processing activity, was not undertaken.

So despite the ideal climate to produce Arabica coffee, which can command significant price premium in global markets, Rwanda was not able to realize that potential. At the same time, starting in early 2000s, there was also a trend in global markets. The specialty coffee market started from a small base and was rapidly growing. So there was a transition from a market transaction to a relational, where small specialty coffee roasters were trying to identify producers of specialty coffee and deliver some of the technical assistance needed to help them meet the quality of buyers, and also, they compensated those efforts by paying premium prices.

And it was surprising that specialty coffee commanded even much higher prices compared to certified coffee, Fair Trade or organic.

So the interesting point of this case about – the focus of these partnerships to build local productive capacity of coffee value chain in Rwanda, so the local industry reaches that innovative response capacity that produce coffee and respond to dynamic market conditions. One of the significant aspects of this case was also organizational innovation in local coffee value chain that happened. Rwanda and the smaller specialty coffee company was established that's a former owned company, which connects coffee producing cooperatives all over these target areas.

And at the same time, for the first time in history of Rwanda or even sub-Saharan Africa, Cup of Excellence was taken to Rwanda, where it facilitated those downstream market linkages and created those direct relationship between producing cooperatives, and also buyers downstream in the market.

So in terms of identifying partners, I think compared to all three cases, the coffee sector in Rwanda made the ideal choice, identifying the right type of partners and leveraging private sector capabilities to achieve pro-poor outcomes.

So in terms of positive outcomes for trade and industry growth, as well as poverty reduction objectives, as I mentioned, the coffee sector in Rwanda had significant achievements. Exports of fully-washed coffee grew from 20 metric tons to over – to close to 6,000 metric tons. Share of specialty coffee export grew by a third. And also, price received by smallholders significantly increased, and the share of that price that really reached smallholders was also significant.

In terms of sustainable inclusion and ability of smallholders to participate in these high value global value chains and be able to retain also positive incomes was that specialty coffee didn't require compliance cost. There wasn't any certification involved in that, and that significantly impacted the cost-benefit of this upgrading strategy for smallholders.

Premiums were guaranteed, and Rwanda – something that probably is very difficult to capture when these partnership programs are evaluated or their outcomes are measured is some of these outcomes, like Rwanda becoming a known origin in global specialty brand. It wasn't possible when PEARL project was implemented or some of those preceding projects, even for SPREAD. This was a significant achievement that established the trust between the buyers in the downstream market and also the local producers.

So some of the key takeaways from the three case studies that we looked at is that PPPs in all three cases positively impacted industry growth in terms of increased exports, increased investment, and increased production. But those gains do not automatically lead to increased benefit for smallholders. There is that asymmetry of power relationship in the value chain that significantly blocks increases or gains or value creation to be transferred to upstream segments of the chain. And partnerships with individual firms often ran the risk of reinforcing some of those asymmetric power relationships that exist in these value chains.

One theme that is common, not only in the cases that we looked at, but also across other export-oriented agricultural value chains, is the issue of certification, and that's going to be the case, because they're all food safety concerns and issues. But all those costs, whatever innovation that's made downstream, either to differentiate products or to meet some of the regulatory requirements in terms of food safety, most of those costs are shifted to smallholder producers, and that significantly increases the cost of production for smallholders, and makes it difficult for them to enter and sustain their partnership in these value chains.

As we noticed in the case of Kenya horticultural value chain, donor intervention to initially subsidize certification costs can lead to moderate increases in farmers' income, but that increase in income is only possible through premium prices paid to those smallholders, which is often not guaranteed, in the case of cocoa and also in the case of horticulture.

And this often makes us think about that general notion that we might have in terms of economic gains or increased value created as a result of these partnerships, might lead to increased benefit to smallholders or growth also trickle down – has trickle down effects in terms of poverty reduction. That's not guaranteed.

So from the key takeaways and the cases that we looked at, some of the important conditions for inclusive development or to combine growth and poverty reduction objectives emerges that it is important that certification schemes are affordable to smallholders. And a significant part of that affordability depends on whether smallholders receive appropriate and guaranteed premium prices. The cost-benefit of participating in these certified value chains of course differs between different contexts, but guaranteed price premiums is a significant contributor to that.

Be mindful of power asymmetries in the value chains. As Gary mentioned, that is the reality of today's global economy. But looking carefully at the governance dynamics in the value chain, it is possible to identify those leverage points and identify the right type of firms to partner with so we can increase the poverty reduction impact of those partnerships.

As the case of coffee in Rwanda indicated, that for smallholders to beneficially participate in these high value agricultural value chains, productive capability to respond to dynamic markets is essential. Working with farmers to realize those capabilities is significantly important.

And as the case of horticulture indicated, working with smallholders or working with local lead firms not only has a potential to support smallholders, but also offers non-farm income opportunities, which to a large extent the benefit of these non-farm employment opportunities depends on whether poor have the right type of skills to participate and take those job positions, and whether they can actually have the bargaining power to protect worker rights and also negotiate for fair wages.

Because in these partnerships, as those three type of relationships that Gary presented, these partnerships are implemented in contexts where public policy also matters a lot, and there is significant role for governments to play in ensuring the poverty reduction impact of these partnerships.

In terms of the key findings that I outlined in the previous slide, building smallholder innovation response capacity, depending on the context, there's no right or general prescription. Depending on the context, governments, private sector, and donors need to find ways to work together to ensure that smallholders develop that capacity where they can participate in these dynamic global markets.

And I think for donors, that significant convening capacity that they have to bring all these stakeholders around the table and chart the way where they can work together, depending on the context that is significantly important, beyond the financial contribution that donors can make in these partnerships.

Second is affordability of certification schemes. There are a lot of areas or certification requirements, especially related to sanitary and phytosanitary standards and food safety issues. But there are economies of scale that be achieved, and governments really making that possible is significantly supporting all these partnerships, and also private sector efforts, in those countries, whether exporters or local lead firms, to buy downstream buyer requirements cost efficiently.

Private sector, whether it's local lead firms or global lead firms, defining those conditions has the responsibility or should be encouraged or be targeted through advocacy campaigns or ways that civil society organizations can engage them, so that where there were additional demand in terms of costs and complexity of quality they put on smallholders, they also compensate those with guaranteed premium prices.

In terms of bargaining power of smallholders or producers vis-à-vis donors, there's significant role for the government. I think the dynamics now in Ivory Coast in terms of developing that authority to market cocoa is a significant case and provides significant insights in how governments can play that role. But again, donors also has a critical role in that in terms of convening those stakeholders and supporting government.

As for the two other dimensions that relates to non-farm employment opportunities, appropriate scale set and also protection of worker rights, I think donors have a role to play in terms of supporting government and government institutions in training or vocational education programs that really equips those poor people in their – or landless, or smallholder, with the right type of skills that are demanded by the market.

And again, there are significant I think studies out there, the report that

Gary referred to, capturing the gains, that looks at the worker conditions in sub-Saharan Africa in relation to horticultural value chains and also other value chains that highlights some of the issues that those informal jobs face in terms of supporting poverty reduction objectives.

Thank you so much, and I'll end up here and open floor for questions and answers.

USAID Microlinks 1: All right.

QUESTIONS AND ANSWERS

USAID Microlinks 1: So thank you to Gary and Ajmal for a great presentation. We'll now move into our question and answer portion. Before we move into that, I just want to remain everyone both in the room and on webinar, if you have to leave a little early, the audio recording will be available in about a week, and if we have the publication that's associated with this presentation available, we will include that in that post-event resource. So that link will be included, and anyone who's registered for this event will receive an email when that's available.

So just as we move into the question and answer, we have about 65 people in the room, and about 140 in the webinar, so we'll take one question in the room, and then switch to webinar, and go back and forth. We also do have a remote presenter who's on for the webinar, Shawn Stokes. You might hear his voice come over the loudspeaker as well to help answer.

So with that, we'll go ahead and take a question here in the room. I'll ask that you say your name and organization. Here you go.

Tom Timburg: Tom Timburg, consultant. A very impressive presentation, but I'm – and my guess is my questions are probably – A very impressive presentation, asking precisely the questions that everybody should have been asking for the last 20 years, and done very nicely. My guess is the write-up may answer my questions, but I see three missing elements of parallelism in your cases. In the third case, you emphasize the creation of jobs as a key item, and presumably more generally the creation of an enabling labor regulation, labor market regulation. But you don't talk about it in the other two cases. And I wonder what they represent quantitatively.

The second issue is you complain in the second case that it's only, I don't know, 6,000 or 4,000 farmers out of a million or 2. It isn't – and in the first case, rather. It's the same in the second case, whereas in the third case, you're talking about a sector which to some extent dominates the economy of Rwanda. It's a little country. It's a question of scale. I wondered if you would raise the question about whether it is necessary in the first place to have a large sector that's a large portion of the economy, and whether your standards are biased.

And the third thing, which is stronger, is in the first one, with chocolate, you talk about the branded marketers, presumably the Hersheys and Cadburys and all those other things. In many other international value chains, those have in fact been the motor for securing various welfare or attempts to secure various welfare benefits, both for workers and suppliers, less so, frankly, in the agricultural – narrowly agricultural, food agricultural, world. Do you want to speak to that? And are you advocating that perhaps it – those be suggested?

And finally, it is questionable whether the focus on the labor market regulations is – typically, the studies either look at the labor market regulations or they look at the development of the industry. They don't assess the relative costs and benefits of those two activities. Thank you.

Ajmal Abdulsamad: Thank you very much for your question. In relation to the cocoa case and those brand firms, I totally agree with you, that brand firms positioned in the downstream segment of the chain in chocolate manufacturing, they have initiated and were committed significantly to improve the poverty impact of their – poverty and environmental impact of their supply chains. And examples of Mars and others who have committed to source 100 percent of their cocoa beans by 2020 from certified cocoa sources.

But again, the question is there – whether that certification addresses the issue of poverty, and what are the cost-benefit of that to smallholders? That's one part.

The second part is that there is a realization, even among the industry players, that it is very difficult to achieve the goals of sustaining the future of the industry, because chocolate – cocoa chocolate value chain faces scarcity of supply, and that threatens the future of the industry. There is rapidly growing demand in some of the developing countries or emerging countries, China, Brazil, Turkey, and others, for chocolate.

And this significantly growing demand doesn't translate into a higher price for smallholders, and that was the concentration of markets. Three firms in the processing and trade segment controls over 40 percent of global cocoa trade and processing. Five firms in that chocolate manufacturing segment control over 55 percent of the market share.

So they have significant commercial interest to invest in their cocoa supply chains. And they're doing that. Mondelēz' Cocoa Life Program is a ten year program that's implemented in six countries, including Indonesia, which I think was extended to Indonesia in 2013. And that entails a $400 million commitment to support these cocoa producers and their communities.

So the question about the case was that the partnerships that was launched did not involve these brand firms, where they have significant commercial interest, where those that are midstream in trade and processing, there are firms like Cargill, ADM, OLAM International, that they trade diversified commodities, and their interests, their commercial interests, do not lie especially in cocoa.

Cocoa is a significant part of their revenue, but it is – when you look at the overall portfolio, it's small. ADM has planned to completely spin off their cocoa business, and by second quarter of 2015, ADM would not be involved anymore in cocoa, chocolate value chain.

So it goes, again, to looking at the chain governance, identifying the right type of firms, and really finding areas where donor contribution or development agency contribution brings that added value to these partnerships.

As for the labor regulation, you're absolutely right that export horticulture is a relatively small share of horticultural production in Kenya. Domestic market plays a significant role and generates demand, and also now they are diversifying into regional markets, markets in Persian Gulf and some of those Gulf countries.

But again, it's only the horticulture sector among the three cases that we looked at that has that non-farm opportunities and creates those types of jobs where landless or poor with some minimal skill training can benefit from those opportunities. But because at the time, not only in Kenya, but other countries, government didn't have that regulatory role to ensure that those laborers, their worker rights are protected, and they get a fair share of the price.

I hope I have answered your questions.

Gary Gereffi: Well, in the interest of allowing more questions, just one specific point. You asked about the difference between Indonesia and Kenya, where the target sectors are a small part of the economies, versus Rwanda, where coffee is a big part of the economy. I think if we're looking at poverty reduction at a national level, there's clearly some advantages in taking dominant sectors like coffee in Rwanda in terms of looking for gains.

However, from a value chain point of view, and trying to figure out what the leverage is that a country or producer has to get strong gains, the cocoa chocolate case, because of the importance of those big chocolate brands and the scarcity of cocoa, actually offers lots of opportunities to create gains. So if we would have shifted from let's say Indonesia to Ivory Coast, where cocoa is the dominant export item, the things we learn about public-private partnerships, even in diversified economics, can be applied to other countries.

And so in all of our cases, we have very much in mind the idea of generalizability of what we're learning to other country contexts and to other industries. So I don't think we need to worry too much about the particular country case as much as what you can do in a sector and which, as Ajmal was emphasizing, which actors you need to pull into the public-private partnerships.

USAID Microlinks 1: Okay. Thank you. Now if we can take a question from the webinar participants?

USAID Microlinks 2: Can everyone hear me? Okay. So we have currently 103 participants still joining us online, and they've been a very active community, asking a lot of great questions. And again, thanks to our remote presenter, Shawn Stokes, for answering a lot of them throughout the presentation.

So our first question comes from Jodie Thorpe at the Institute of Development Studies in the UK, who asks: Who is the public in these public-private partnerships? Is there any role for developing country governments? And similarly, Samuel Mayinoti in Namibia with FHI 360 asks, please clarify the role of governments in these cases.

Ajmal Abdulsamad: Shawn, would you like to address the cocoa – coffee case first, and then I'll move on to cocoa and horticulture? Do you hear me, Shawn?

Shawn Stokes: Yes, Ajmal, I can hear you. Actually, when I heard that question, I thought that you had some really ideal examples from cocoa and in some of the other country contexts that we researched.

Ajmal Abdulsamad: Who is the public and what was the role of public institutions in these countries, in these partnerships.

Shawn Stokes: Ajmal, can you hear me?

Ajmal Abdulsamad: Yes. Okay. I'll go ahead and address horticulture and cocoa.

For the cocoa case, and generally for these public-private partnerships, or what they also refer, development public-private partnerships, public refers to the contributing donor agency, whether it's USAID, German development agencies, DFID from UK, and others. But government institutions, depending on the economic policies in those countries, are part of these partnerships.

In Indonesia, the cocoa sector was never regulated, in contrast to West African countries, where cocoa sector had a history of government involvement and regulation. So there, the public refers primarily to USAID implementers who implemented those projects.

In Kenya, the horticulture case, public agencies or industry associations that represented the interests of small or medium exporter firms, they were part of the partnerships. And actually, the request for donor assistance initially came from that industry association in early 2000s, which presumably assumed that EurepGap certification was applicable to all exports to Europe, where in reality it was a standard that was set up by a group of retailers, and UK supermarket retailers were a major part of that initiative, and that also constituted a significant export market for Kenya.

Shawn, would you like to answer the question with respect to coffee? Is Shawn still there, or –

Shawn Stokes: Sure, Ajmal. So in Rwanda, the coffee sector was previously highly regulated. It was actually at one point illegal to take down any coffee trees, it was so integral to the economy. And the market was liberalized a bit, and the leading agency now still serves the role of providing inputs, such as seedlings and fertilizers and such, which I think does play a productive role in helping smallholders there.

Gary Gereffi: Just one comment to add, which is I think as the questions imply, public and private actually are very heterogeneous categories, and they kind of oversimplify the kinds of relationships. So here, public could be host country governments, but also international donor organizations. And private could be big multinational players in the chain, and relatively small, local exporters or smallholders.

So when we're using a simple phrase like public-private partnerships and say, under what conditions do they work, that implies we need to unpack the definition of public and private in order to say which kinds of specific relationships in those 135 different arrangements, lots of variation, and as Ajmal said at the beginning, just classifying the 135 in terms of how they intervene, the structure, the actors, is an important part of the process.

So we can use public-private in a broad way, but we have to realize the need to unpack those categories when we actually talk about relationships.

USAID Microlinks 1: All right. Thank you. We'll take another question in the room, from this side. And remember, please say your name and organization.

TJ Ryan: Thanks. I'm TJ Ryan with ACDI/VOCA. I was just wondering – great job, by the way. I was just wondering if as you look at this and make sort of recommendations going forward, in particular for donor agencies, if there might be an interest in developing a do no harm sort of approach to the public-private sector design, so that instead of potentially exacerbating the asymmetries that you referred to at the beginning, you'd really look to reduce them. That would be interesting, to know if there's interest there.

Ajmal Abdulsamad: As I referred to the case of cocoa and identifying the right type of partners, I think even among the private sector, if we impact the private sector and the type of firms and their position along the chain, there is significant commercial interest and also willingness to reduce or mitigate the social and environmental impact of their supply chains in developing countries.

It's not only I think the question of reducing that effects, which to a large extent has taken the shape of those corporate social responsibilities, and it's often very difficult also to measure the outcomes of those achievements. Moving forward, I think, the goal post should be how partnerships can mainstream these objectives in the conventional or the mainstream commercial operations of these global value chains and firms, moving beyond those CSR reducing or doing no harm in these – in agricultural value chains, and the effect in global – in developing countries.

The cases indicate that those who have commercial interests, they have very limited footprint in producing countries, like in the case of specialty coffee roasters, or to a large extent also brand firms in the chocolate industry. They have outsourced their processing activities, and it's mainly those midstream actors that are connecting producing countries to consumer countries. And they try to find cost efficient ways of structuring their supply chain to meet the requirements or demands of their downstream buyers.

So it is very difficult to generalize, find a general answer, but the points that – or the key takeaways coming out of these case studies indicate that there is commercial interest and there is potential to move beyond that do no harm, and donors as actors who have the convening capacity to bring in the right type of firms and the right type of stakeholders around the table to achieve those objectives.

USAID Microlinks 1: Okay. Thank you. I think we have time for one or two more questions. How about one from the webinar?

USAID Microlinks 2: Can you hear me? Okay. So Richard Tinsley from Colorado State University asks, why the export orientation and not internal orientation that would impact on national food security? And then Mark Lundy from CIAT in Colombia chimed in, saying: Building on Richard's question, based on our work, we would estimate that perhaps ten percent of rural producers can access modern market channels, meaning export and supermarkets. Work focused only here is effectively helping the better-off. Why not focus on national markets with lower entry barriers that are more accessible for the poor?

Gary Gereffi: So let me take a first crack at that question. When we're looking at global value chains, there has been a big focus on export markets as one of the ways in which producing countries tie into the global economy. And if we're looking at things like food security in domestic markets, we don't necessarily need quite the same approach. They're still global…

So I'd say one reason to focus on exports is that they are tied into value chains that have these higher value niches, and exports actually have a potential multiplier effect in terms of a smaller country being able to reach many markets that could actually have far bigger impact. And if you just have to rely on a domestic market, they could be small, fragmented, and have low purchasing power.

So I think there is a separate agenda, equally if not more valid, on food security issues, but then you'd be looking at different types of crops. You'd be looking at things like corn and wheat. And we happen to have a project on food security in the Middle East and North Africa which is focusing on wheat, and a whole set of issues that's still bringing global supply chain dynamics, but the real issue what does that mean in terms of bread prices, and what does that mean in terms of local consumption?

So I just think there's two different kind of research agendas, and looking at export – and I would highlight one other point that Ajmal was making. Trying to figure ways in which you could partner with global private sector players is something that's been going on in the environmental community and in the development community for a long time, asking the question, if you did these corporate partnerships, under what conditions can they be pro-development, can they be poverty reduction-oriented, versus just reinforcing private sector interests?

And I think we've been very aware of the point that Ajmal mentioned a couple of times. If you were to just partner with an individual company, you could be reinforcing power asymmetries. If you have an industry focus, an industry focus then allows you to bring in a much broader range of private sector players, and you could then ask that question about how global industries maybe tie into smallholders as a segment inside countries.

So I think it's just two different questions.

USAID Microlinks 1: All right. We'll take one in the room from back here.

Emiliano Duch: Thank you. My name is Emiliano Duch. I work in the World Bank. And I want to congratulate you for a great job, and to ask on the Rwanda case if you have explored the example of the coffee shop from Rwanda, which is a place very near here called Bourbon Coffee. This is the maximum integration downstream. Have you seen what is the effect of that on the smallholders? They are selling only Rwanda coffee.

And also if that's something that is considered. Also, we have three examples of cooperative owned restaurants here in Washington, DC, by the Cooperative Farmers of North Dakota, which own the Founding Farmers in the IMF building. So is that the ultimate way of integrating down the value chain for farmers? Have you seen the effects of the Rwandans, which we're very carefully looking at, because we think that could be a very interesting thing? Because the investment to create value to the farmers is done in the final country, not in the origin country.

So there is much more value in your barista mixing your coffee than in any price that you get paid for a pound of specialty coffee. So how – is there any studies on how to capture that? I would be very interested to know. Thank you.

Ajmal Abdulsamad: Shawn, would you like to address that question?

Shawn Stokes: Sure. I'm not familiar with the shop you mentioned that sources solely from Rwandan coffee.

Gary Gereffi: Just one quick comment. I've also heard from some folks that Rwanda handicraft makers, for example, actually sell handicrafts in Target stores, and strange places. In other words, export products from these countries can end up in rich country consumer markets. But I'd say from the poverty –

Sorry. Shawn, you want to jump in, or – maybe we could – if Shawn's there, we could sort of – he could follow real quick. But I think from the poverty reduction focus of this research, that was really targeted on in-country, producer country – and so I think what you might – the margin might be greater on the downstream, and there's clearly a high markup when you get to this level, but I think that that's a separate – we could track that, too, but I don't think that addresses the sort of in-country issues. But Shawn, maybe you want to say –

Shawn Stokes: Can you hear me now? I think you might be having some technical difficulties.

Gary Gereffi: Yeah. If you could build that vertical integration link, I mean, I think that's great. You know, that's almost like a bonus. Cases where it's hard to do, but if we could find cases, we could try to generalize how did they do it, and is there a way for others to do the same. Yeah.

Shawn Stokes: Can you hear me now?

Ajmal Abdulsamad: Yes.

Shawn Stokes: Hello?

Gary Gereffi: Hi, Shawn. Yes.

Ajmal Abdulsamad: Yes. We hear you, Shawn.

Shawn Stokes: You can hear me?

Ajmal Abdulsamad: Yes, we do.

Shawn Stokes: Ah, okay. So I think we were having a little technical difficulty there. I said that I – first, to answer the first question, I'm not familiar with the place that sources – in DC that sources solely from Rwanda. That's very interesting to hear, and good to hear. One of the challenges with this research was trying to focus on dynamics that were occurring at the time of these partnerships, so as to not put ourselves in the position where we were looking back and saying, you know, with hindsight it's a lot easier to say what our projects could have done better or not.

So – but it is interesting to hear that there are places like that opening up, and I think it's an interesting question. The market for specialty coffee has grown tremendously over the last 10 to 15 years. I think in the US, it grew from just 9 percent of the market to about 20 – 34 percent today. And compared to commodity grade coffee, the smallholders receive a much larger share of the retail price. I think it's about 10 percent for commodity grade versus 23 percent of the retail price for specialty coffee growers.

So I think this – in this particular case, with this emerging market, this is a way that the smallholders can receive a larger share of that value. So the higher market price at the consumption end does make its way down to the smallholders in this case. I hope that answers the question.

Gary Gereffi: Good, Shawn.

USAID Microlinks 1: Okay. So it's about 10:30 now, so I know there were a lot more questions. The presenters will stay in the room for a little while to talk to some of you. Thank you again to Ajmal and to Gary and to Shawn for joining us remotely. We greatly appreciate the presentation and your time.

And just for everyone to remember, Microlinks will hold the post-event resources, and we will hold our next Microlinks seminar on February 19th. That's going to look at labor market assessments and the application of tools in Zimbabwe. So please visit Microlinks for more information on that, too, and thank you again.