The risks of inclusion: shifts in governance processes and upgrading opportunities for cocoa farmers in Ghana
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8 CONCLUSIONS

8.1 Introduction
The objective of this study was to develop a thorough understanding of the opportunities and constraints that producers of primary commodities face in their effort to improve their position in the global value chain. This research is particularly relevant now when farmers are expected to behave more like ‘firms’. However, as my results show, agents higher up in the chain and the institutional environment that surround farmers still largely determine scope for change and the direction of ‘progress’ available to farmers.

The central question in this study was how global chain governance, national governance processes and social structures interact in making more inclusive upgrading strategies for small-scale cocoa farmers in Ghana (thus linking upgrading explicitly to development). In my analysis, I took a multi-level and dynamic approach, by analysing shifting power relations, structures and human agency (on the global, national and local level) and also by looking at the ongoing interactions between these different levels. Employing several research tools, I looked at different dimensions to understand the upgrading opportunities and constraints that farmers face. The value chain approach was used as a tool to identify upgrading opportunities and constraints for cocoa farmers in Ghana. The concept of state governance was used to identify (additional) upgrading opportunities and constraints by looking specifically at the changes in cocoa farmers’ national institutional environment, i.e. the introduction of reforms in the cocoa sector in Ghana and the changing role of the state. At the level of the farmer, the concept of ‘embeddedness’ was used to identify social relations that constrain or facilitate upgrading strategies and affect the way farmers benefit from these strategies.

8.2 Global Value Chain approach and upgrading
I employed the global value chain (GVC) approach to answer the following question: How are the main interests/risks of global actors currently governing the cocoa chain being manifested locally, both through their involvement in local upgrading strategies in Ghana, and through establishing more direct relations with cocoa suppliers and the formation of new public-private partnerships?

The main hypothesis, underlying this question, is that actors higher up in the chain than the producers are the ones who (have agency and) determine the producers’ room for manoeuvring and the direction of upgrading. This conflicts with one of the key assumptions of the GVC literature; namely, that a value chain is
considered a dynamic open system where producers in developing countries can act as active agents and upgrade their ‘business’.

Another assumption of GVC literature is the presumed existence of open market conditions. I illustrated that in Ghana this is not the case. The government, through Cocobod, curtails the role of international buyers (and other players in the chain). Consequently international buyer interventions are small-scale and limited to extension services and training. Despite the fact that international traders/processors (and to a lesser extent also chocolate manufacturers) are increasingly driving the global chain, in Ghana the state remains a powerful entity in control of the supply chain. With respect to the GVC theory the dominant role of the state in Ghana implies a need to discuss other more hybrid types of governance based on various forms of coordination and public-private-civil partnerships, and to move beyond the usual distinction between buyer, trader and producer-driven chains.

Do international buyers want to become more actively involved in Ghana? In other fully liberalised countries international buyers established direct trade relations with farmer groups. Besides extension and training, buyers invest in information systems, quality control and marketing skills. Buyers execute large scale interventions in other countries primarily due to the problems in these countries (for example poor quality of cocoa in Cameroon and Nigeria, political instability in Côte d’Ivoire and the involvement of children in cocoa production) and the resulting higher risks of supplier failure. In addition, the reduced role of the state in providing marketing channels, extension services, and other services makes trade relations between buyers and suppliers more direct and interventions more common. However, this shift in chain coordination does not give much information about the well-being of the smallholders involved: were these direct relationships beneficial for the individual farmer? In Ghana, the state guarantees a consistent supply of premium quality cocoa and one obvious argument is that interventions in Ghana are simply less needed. Consequently, international buyers have limited their activities in Ghana to initiating/supporting small-scale programmes, primarily aimed at enhancing the use of more environmentally friendly practices, at addressing the problem of child labour and at financing community development. Physically international traders did move ‘closer’ to the farmers, but establishing grinding operations in sourcing countries did not result in stronger direct relationships between buyers and cocoa farmers.

The involvement of global buyers in social and environmental programmes is not only ‘window dressing’. Since 2003, an important change is taking place among multinational traders, processors and manufacturers. Round table meetings, national cocoa platforms and multi-stakeholder initiatives have contributed to a continuous dialogue with (new) partners and, as a result, to the recognition that a sustainable cocoa economy requires the active participation of the public sector, members of civil society and farmer groups and some level of cooperation. This trend however involves high transaction costs, which explains why the private sector still favours a state intervention that is able to arrange everything (where costs remain partly invisible), such as in Ghana. Both international buyers and the Ghanaian state have (still) an
interest in maintaining or only slightly changing the partially liberalised system. However, this consensus does not necessarily lead to the best outcomes for farmers.

From a development perspective it is important to recognise that the upgrading strategies initiated by actors further up in the chain can be ‘sub-optimal’ for (groups of) farmers. This observation connects to more recent debates on value chains and social inclusion and exclusion, where it is argued that insertion in a GVC does not automatically lead to upgrading and development for all the involved producers. This research confirmed that upgrading is a selective process. It also demonstrated the importance of looking beyond the risk of being ‘excluded’ from a chain (or from upgrading opportunities within a chain) to the risk of being ‘included’. It is common practice to transfer risks down the chain to the producer level.

GVC analysis is limited because it abstracts too far away from the local and national socio-political context in which the producers and some other (local) chain actors are embedded. This research shows that, in models of GVC analysis, the extent and type of upgrading are determined not only by the international character of the GVC itself and inter-firm relations. Upgrading strategies and their outcomes for individual producers are also substantially determined by their heterogeneity and the character of national institutional arrangements – notably, the strength of producer organisation and the marketing sector within producer countries.

8.3 State governance and upgrading

The concept of state governance is used to answer the question: How does the changing role of the state in the Ghanaian cocoa sector affect the conditions under which cocoa smallholders operate and their opportunities and constraints for upgrading?

In the sector, there is a lively discussion on the role of the state in promoting development in the light of international competition. The international process of liberalisation reduced the direct involvement of the state in economic activities in developing countries; however, this did not automatically lead to development. This failure to provide the expected social and economic progress gave impetus to new discussions on the role of the state in sectors in transition.

Compared to other cocoa producing countries, such as Côte d’Ivoire, Cameroon and Nigeria, the partially liberalised system in Ghana has some clear-cut advantages for smallholders. The system of price stabilisation is still intact and provides Ghanaian cocoa farmers with a stable income. The Quality Control Division, still controlled by the government, contributes to the production of good quality cocoa. Ghanaian cocoa beans receive a premium price on the world market. The Ghanaian government acts as a kind of ‘lead agent’; it assures consistent supply of high volumes of premium quality cocoa, resulting in remunerative contracts between Ghanaian government and international buyers and international banks. In addition the incentives for foreign processors’ outsourcing of their processing capacities to Ghana more or less guarantees strong future demand for Ghanaian cocoa and cocoa products.

Contrasting the cocoa sector in Ghana with the sector in other West African countries, it becomes clear that the Ghanaian state seeks to maintain its crucial role
as ‘chain actor’. Its interventions are mainly directed towards economic development of the sector. Government interventions are generally large-scale and reach the majority of farmers. This cannot be easily duplicated by other actors. In ‘softer’ issues, such as sustainable development and pro-poor growth, the state intervenes less actively. Instead of functioning as an enabler, in some cases the Ghanaian government ‘disables’ (or constrains) actors from taking initiatives on these issues. In other countries that fully liberalised the cocoa sector, such as Nigeria and Côte d’Ivoire, the trend is to bring coordination of the supply chain back to the state.

In Ghana, the ‘upgrading agenda’ still prioritises economic sustainability, only recently giving serious attention to social and environmental issues. As a result, the level of farmer organisation remains weak. The gradual reforms also constrained the performance of public and private players in the cocoa sector. The fragmentation of extension services and the lack of bargaining power of local buyers and farmers make farmers vulnerable in the transition process. As a result farmers are not able to enjoy the full benefits of the reforms. There were different attempts at indentifying winners and losers of the liberalisation (e.g. Akuyama, 2001; Teal and Vigneri, 2004), but these studies mainly looked at price, volume and quality aspects. Understanding the full impact of reforms on the producer level requires a wider set of indicators, including remunerative farmer income, changes in the farmers’ institutional environment and the agency of farmers (e.g. Haque, 2004; Long, 2001). It also requires a longer time line, as outcomes of liberalisation are not immediately visible and quite dynamic over time. My findings also suggest that farmers are not benefiting fully nor equally from the partially liberalised system; ownership, social position and locality to a significant extent determine who has access to services and who benefits from local buyer-supplier relationships. Also, the new reforms exposed farmers to new risks, such as increased production costs and living costs.

The findings show that the theoretical assumption of the state playing an enabling in creating more favourable condition for agricultural development only holds true in a fully liberalised setting. But this does not mean that in these cases the state is always a ‘neutral player’; economic interests and personal gains are a powerful driving force. Nor does the state automatically possess the capacity to successfully manage interventions and to successfully contribute to the capacity-building of other actors.

In a partially liberalised economy the state still intervenes directly in sectoral development. By taking this role the state functions both as ‘balancer’ as well as ‘bottleneck’. As a balancer it mainly protects farmers from price-fluctuations on the world market, providing them with a stable income and reinvesting part of its income back into the cocoa sector. It also guarantees international buyers the supply of premium quality beans. So, the risks for suppliers as well as for international buyers are mediated by the state, assuring smooth trade relations. In a partially liberalised system the state can also function as ‘bottleneck’, preventing other public, private and civil actors from taking a more active role and contributing to accomplishing development goals. The state as hinderer of development is linked to the lack of transparency on how the state calculates and distributes the costs, benefits and risks involved in cocoa production and marketing.
8.4 Social structures and upgrading

The notion that the economic behaviour of firms, markets or economic institutions is embedded in wider social relations implies that in order to identify ‘inclusive upgrading strategies’ it is necessary to gain insight in the differences in farmers’ social relations. The concept of ‘embeddedness’ is used to answer the following question: How do upgrading strategies and the resulting interventions benefit different groups of cocoa farmers and to what extent do these groups participate actively in the activities and have initiated ‘their own’ strategies?

The theoretical assumption that local upgrading is initiated by farmers themselves (individually or collectively) and that other (global, national and local) factors enable farmers to act as active agents, is only partly true. Due to severe disempowerment among farmers, scarce few bottom-up initiatives actually improve the farmers’ position in the chain. For example, the lack of formal organisation (and solidarity) among farmers reduces their capacity to negotiate for services and to benefit more from existing and alternative marketing channels. This study demonstrated that ‘upgrading strategies’ and the interventions that facilitate upgrading very much reflect the agenda of the dominant drivers of the chain; they are not ‘neutral’. It is within this restricted space that farmers can create changes, individually or collectively.

The main strategies that farmers follow are directed towards maintaining the quality of their produce and increasing the volume of production. The data collected through farmer surveys shows that farmers faced several institutional constraints and that access to institutional support is unequal. This contrasts to another theoretical assumption that asserted that upgrading is accessible to all producers inserted in a chain. Informal institutions and social networks play a significant role in the cocoa sector and determine the choices farmers make in relation to selling their produce, their involvement in upgrading strategies and the extent to which they benefit from this participation. Therefore in this study, in evaluating upgrading outcomes, I took the heterogeneity among farmers into account.

It turns out that both ‘exclusion’ and ‘inclusion under unfavourable conditions’ are not natural processes but an outcome of social structures, land and shareholding systems and interventions. Whether or not farmers own the farm they tend, their social position in the farming community and the location of the farm can be significant in determining how farmers respond to reforms in the cocoa sector and the associated interventions. For example, my survey showed that farmers that play the role of leader in their community have better access to quality services and have higher yields (sometimes this is the reason for becoming a leader). There are other relevant indicators. For example female farmers have more difficulty to secure access to high technologies, work less with other farmers and have lower yields. Collective action was not a significant determinant in a partially liberalised system such as Ghana but is more important in other (fully liberalised) contexts.

Another important outcome of the study is that differences between farmers are inter-related. The inter-relation between farmer characteristics makes it even more urgent to understand the different impact of interventions on farmers. Understanding this process also helps policy-makers and NGOs to develop more
effective interventions. Moreover, it also helps the private sector to think more strategically for realising some key goals, such as securing delivery of large quantities of good quality beans from Ghana and the strategic targeting of specific groups for assistance in developing sustainable sourcing of cocoa.

What became clear was that conventional approaches towards upgrading (GVC approach and clustering approach) have a rather narrow view on what upgrading actually entails. Conventional theory assumes that competitiveness is the goal of upgrading. Cocoa farmers in Ghana do not try ‘to do things differently compared to competitors’; on the contrary, the objective for all farmers is to produce premium quality cocoa, which has a secure market. My study also showed that although learning is an important mechanism that makes upgrading possible there are other mechanisms that deserve more attention such as the more adequate distribution and application of already existing technologies. In other words, in a partially liberalised system other upgrading goals, upgrading means and upgrading impacts have to be identified. For farmers the main incentive to invest in their farm is to obtain higher levels of income and to secure a kind of social security. Another upgrading ‘goal’ missing from the theory is empowerment. Maybe not surprisingly, the interventions I identified are embedded within existing structures without aiming to transform these structures. If the aim is to narrow down existing inequalities in a chain and on a producer level, one has to move beyond sectoral interventions and focus on empowering specific (more vulnerable) groups of farmers. For a full understanding of the relationship between upgrading and development, also the extent of ‘self-exclusion’ from a GVC and diversification needs to be included in the analysis. The analysis revealed that the public-private intervention, involving the fair trade movement, was in terms of impact more ‘inclusive’, than for example the larger-scale public interventions.

A final conclusion in this section is that a thorough analysis of upgrading strategies requires the unravelling of upgrading concept. Besides different types of strategies, the focus should be on the different ways that contribute to upgrading as an outcome. The typology, proposed in earlier work by Gibbon (2001), is useful to unravel upgrading patterns and the extent to which upgrading strategies are ‘inclusive’. In order to be able to say something about the outcomes of upgrading more information is required on issues of control and the impact of upgrading.

8.5 Interactions between governance structures and upgrading

In response to the central question (How do different governance structures interact in creating opportunities and constraints for more inclusive upgrading among different groups of farmers?) several authors emphasised the importance of studying the interactions between vertical and horizontal relations (e.g. Bolwig et al., 2008; Giuliani et al., 2005; Humphrey and Schmitz, 2000; Lambooy, 2002; Palpacuer, 2000; Westen, 2002). Also, they looked more closely at whether governance processes reinforce or block each other and under what conditions.
Such an approach is necessary to understand the link between power structures, upgrading and poverty. In this study, I looked at different levels of interaction, focusing on interventions. For example, I analysed the interaction between governance processes in the global cocoa chain and national governance structures in Ghana. It is apparent that as long as Ghana continues with the production of high volumes of good quality cocoa, international buyers will continue to support the partially liberalised system. This is a system of ‘joint governance’ with an active role for the Ghanaian state and a passive role for international cocoa processors and chocolate manufacturers. Despite the reforms, Ghana is the main intervener in the sector, focusing mainly at maintaining high quality production standards and at increasing volumes of conventional cocoa production. These state-driven interventions are generally top-down and large-scale; they reach the majority of farmers but not always equally. Sharing an interest in maintaining the system in Ghana, international buyers do not exercise significant pressure for further reforms. However, the conditions for cocoa production are changing. The increasing risks for supplier failure urge international processors and manufacturers to exercise more control on the supply side of the chain. The trend towards sustainable cocoa sourcing practices also demands a shift in focusing purely on economic sustainability of cocoa towards paying more attention to social and environmental issues. So far, the Ghanaian government has the tendency to block or slow-down activities in this field and obstructs more direct relations between international buyers and suppliers.

I also analysed the interaction between national governance structures and social structures. Although the Ghanaian state still coordinates the cocoa supply chain, there are visible signs of the gradual introduction of reforms. The role of the government is reduced in for example the provision of extension services and distribution of (subsidised) inputs; also Cocobod privatised the internal marketing of cocoa. New, mainly private, players have entered the scene. The impact of these changing governing structures is felt differently by different farmers. Farm leaders, farm-owners and farmers living in areas where cocoa production is more concentrated tend to benefit more from these changes than other farmers. In most cases the interaction reinforces existing power structures, for example traditional structures, where chiefs play an important leading role. The state-interventions are not directed towards empowering the farmers, but place a higher priority on maintaining their own power. Looking at the long-term perspective this can become problematic as unorganised farmers have difficulty in applying for different services, such as credit and training; some level of organisation is also necessary to get access to alternative markets (such as niche or mainstream certified cocoa).

8.6 A framework for more inclusive upgrading

In this study I proposed a framework for analysing inclusive upgrading which builds on the understanding of different governance levels and how they interact. But a framework for inclusive upgrading needs to include additional dimensions. First of all, it is important to look not only at the number of farmers reached but also at who
exactly is targeted. From a development perspective this helps to identify strategies that reach more vulnerable groups. From a private sector perspective this helps to identify the more successful farmers who can serve as role model for others. Second, it is important to look at impact of upgrading and to make a distinction between different types of impact. ‘Inclusive upgrading strategies’ are strategies that have an impact beyond competitiveness and added value, and create benefits in terms of remunerative farmer income and empowerment. Reaching these impacts is crucial for a sustainable cocoa economy. Understanding opportunities and constraints for inclusive upgrading strategies also requires insight in the trade-offs and constraints faced by different types of farmers.

The strength of this framework for inclusive upgrading is that it contributes to the understanding of longer-term trends towards social in- or exclusion and helps to identify what kind of interventions are needed to steer upgrading into the direction of a more sustainable cocoa economy. Because upgrading is a selective process, it is important to know who will be in and who will be out, and to identify ways of influencing this process. Because in the long-term a large group of farmers is expected to move out of the cocoa sector, upgrading strategies that empower farmers to diversify their risk (diversification) are becoming increasingly important.

**Final reflections**

Evaluating the partially liberalised system and the interventions taking place was not an easy task. Not only because of the lack of transparency on state-investments and procedures, but also because criticising a relatively beneficial system that has no good alternative should be done cautiously. Nevertheless, I think it is important to share some of my critiques and suggestions for improvement and thus provide some “food for thought” for policy-makers, practitioners and researchers.

**The Ghanaian system is under pressure**

Others can learn from the example of Ghana, as the state turns out to be able to mitigate risks involved in cocoa production for producers, as well as for other chain actors. Still there two ‘risks of inclusion’ involved. First, on the level of the producer, the arrangements are sub-optimal and do not create incentives for farmers to behave as entrepreneurs. Also, farmers do not benefit equally from the arrangements in place. Second, the state is inwards oriented and lacks an adaptive approach. This entails a risk for the sector as a whole.

This situation generates some tension, at different levels, which in turn puts pressure on the current system. For example, due to the slow and gradual pace of reforms, LBCs are locked into a system that is not transparent and offers little incentives for high performance and little financial scope for establishing strong relationships with farmers. The lack of farmer organisation is an important reason why farmers do not take full advantage of the (potential) benefits of liberalisation of internal marketing and have no negotiating power. The quality control system is also under pressure and quality performance may continue to fall in a negative spiral. There is also tension between international processing companies and