

**Draft PhD proposal**

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**Working title: Agro-processing Value Chains in Zambia: Implications for Smallholder producers and Local processing firms.**

## Comments

- Choose between a focus on producers or processors
- Select a sub-sector
- State the gaps in research in the problem statement
- Sort issues of evidence that the sector is underperforming by using recent statistics
- Specific objectives too broad
- Objective 2 what information do you need
- Add GVC literature from Mcommick on actual studies in agroprocessing
- Work on references
- Methodology, who do you want to talk to, what is sample, what information do you hope to get
- **Godfrey**
- Start with background followed by statement of the problem
- Objectives- to understand/study etc modify
- Literature review- identification of gaps, putting problem in context
- Drop the livelihoods framework
- **Others**
- Focus on one issue- its too complex
- What is it really that interests you, what is your contribution applying GVC onto a local value.

## Introduction

Agriculture is an important sector of the *Zambian* economy as it stands to shift the country's heavy reliance on copper. Its significance also arises from the fact that it is a source of employment for 70 percent of the total workforce in *Zambia* (ZDA, 2011) and more than 90 percent of rural populations construct their livelihoods around agriculture (Oxfam, 2013). The sector therefore becomes strategic and critical for achieving economic growth and alleviating poverty. To do this, *Zambia* through the various policy instruments has shown its desire to exploit agricultural potential through value addition. This entails transforming the sector from predominantly primary agriculture production into agro-processing- 'turning primary agricultural products into other commodities for [the] market' (ZDA, 2011:2)

The overall potential of agro processing in Zambia is huge due to the relative abundance of agricultural raw materials and low-cost labour (ZDA, 2011). It can reduce wastage, enhance food security, improve livelihoods for low-income and marginalised groups especially women.

According to the agro processing sector profile for Zambia, small-scale agro processing typically employ more than 60 percent of the total labour force employed in Zambia. This shows that local firms engaged in agro-processing are critical for improving the overall performance of the Zambian economy. Agro-processing firms can serve as engines through which economic growth and employment objectives of Zambia can be achieved and sustained (Kayanula and Quartey, 2000). For this to happen, there is need for effective participation of all actors in the agro-processing value chain, from the producers of raw inputs to the processors and the retailers. There is need for the farmers to produce raw or semi-processed products that can be used in processing firms thereby strengthening of industrialisation and integration for a vibrant industrial sector. In addition, successful and effective agro-value chains generate many resultant benefits not only for the economy but also for different support services within the chain and for the employees as well as the final consumers (Kaplinsky and Morris, 2001).

## **Problem statement**

The Zambian government has embarked on a series of programs to strengthen the industrial sector particularly in the area of agro-processing in a deliberate move to diversify the economy. There has been reasonable investment inflows through the national budget in the various agro value chains as well as enabling business environment coupled with stable economic performance of the local economy. Zambia's economy has performed quite well in recent years with an average real Gross Domestic Product (GDP) growth of 6 percent between 2005 and 2011. Macroeconomic variables such as the inflation rate have remained stable at a single digit of 7.1 percent while commercial bank interest rates have also been stable<sup>1</sup> (Oxfam, 2013). Since 2005, Zambia has had a series of five-year national plans that aim at achieving the main goal for its Vision 2030 which is to “improve the investment climate and boost the private sector’s contribution to economic growth”(GRZ, 2006). The

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<sup>1</sup> See Bank of Zambia Presentation titled ‘Financing Enterprise: Policy Options for supporting SMEs’ Presented at the Zambia International Business Advisory Council (ZIBAC) meeting held in Lusaka from November 27 – 28, 2012

strides in economic growth saw its reclassification to a middle-income country in July 2011 according to the World Bank classification standards.

However, despite these actions and strategies, it is evident that the locally owned agro-processing enterprises seem to be 'left-out' and have fallen short of their potential to contribute to the country's economic growth. On the other hand, the majority of the smallholder producers are stuck at the peasantry stage with no increase in production (FSRP, 2008; Oxfam, 2013). Because of this, the growth of the Zambia economy has not translated into significant reduction of income poverty which still remains high at 59.5 percent for the country as whole while rural poverty remains defiant at 76.8 percent (CSO, 2010).

The poor performance of the agro-processing sector can be seen through the amount of primary agricultural products that are sold to agro-processing firms. While 98 per cent of all primary agricultural products are sold to agro processing facilities in Developed countries, the Common Markets for Eastern and Southern Africa (COMESA) region to which Zambia is part, only sells 30 per cent to processing facilities (The Post, 2011). This shows that agro processing sector is not fully developed in these countries despite the great potential that it has. Further evidence shows that in the case of Zambia, the agro processing sector is dominated by foreign investors with the local firms forming the bulk of micro, small and medium enterprises relegated to much inferior processing such as grain milling (Saasa, 2000). The sector is dominated by Zambia Sugar PLC which is the largest sugar producer in Zambia with an estimated market share of about 90 percent (ZDA, 2011). The firms engaged in agro processing continue to face liquidity problems, including limited technical and managerial skills, inadequate infrastructure among other constraints (Saasa, 2000). These constraints would then impact other actors within their value chains such as the smallholder producers and the firm's relations with the retailers.

Because of the prevailing economic conditions (low purchasing power, market size) in developing countries like Zambia a small firm (which characterise most of the locally owned firms) would be economically efficient and have high performance. Coupled with the fact that much of the raw commodity producers are small-medium scale, one would expect a high participation of these firms and the smallholder producers in agro-processing value chains. However, there is limited participation of local firms and farms in this sector. In terms of geographical location, Saasa (2000) observes that majority of the agro processing industries (particularly SMEs) are in affluent provinces with Lusaka province having the highest number.

This raises the questions: why have agro-processing value chains not resulted in the much needed economic growth and poverty alleviation? What are the bottlenecks experienced by different chain actors that impede their growth? What are the terms of inclusion and exclusion and who are the decision makers? How does the institutional environment in which value chains are embedded affect different chain participants and the overall agro-processing sector?

This study therefore seeks to understand the value chain dynamics in selected sub-sectors within agro-processing and the factors that impede individual actors.

The following are the specific objectives:

### **Specific Objectives**

1. To understand the patterns of inclusion and exclusion for smallholder producers and processing firms
2. To study the structure, and extent of value addition at different stages of the value-chain
3. To find out the chain governance structure at different stages of the chain and prospects for upgrading.
4. To understand the institutional environment in which the agro-processing value chain are embedded

## **Significance of the Study**

In the current wave of globalisation, local firms in many developing countries are said to be experiencing a survival crisis (OECD 2000). There's an obvious need for Zambia to rethink social and economic development strategies targeted at smallholder producers and local firms in the agro-processing sector. The results of this study will be significant for local firms and producers engaged in agro-processing in terms of improving their performance in their respective firms, farms and target markets. At macro level, the study will be able to guide policy makers in designing strategies and policies that can enhance the performance of agro-processing firms and boost production and incomes for smallholder producers in Zambia. Further, the results could be relevant to regional blocs such as COMESA and SADC whose member countries have economies that are quite similar to that of Zambia. The study will also contribute to the body of knowledge in the field of agribusiness specifically the factors that are key to the sector's growth.

Significant studies have been carried out regarding the global value chain interface with local firms and their participation however there has been little attention on local value chains in LDCs especially Africa. Even the few value chain studies in Africa have been concerned exclusively with the relationship between processing firms and retailers with little consideration for the chain dynamics upstream which involve the local producers. Development agencies have also been preoccupied with identifying potential markets for small producers in overseas rather than domestically.

The value chain analysis is useful as an analytical tool in dissecting or understanding the policy environment in which chain actors operate and this also results in understanding the participation or non-participation of producers, processors and countries in the global economy. Further, it helps to explain the distribution of benefits to chain actors, thereby making it easy to identify policies which can be devised to enable individual actors within the chain to have better outcomes or rather increase their share of gains. The analysis also helps firms to identify the actors whose behavior plays a role in its success through mapping the flow of goods and services in the production chain.

## **LITERATURE REVIEW**

Poverty alleviation has been at the core of development cooperation with industrial development and trade being paraded as a sure way of eradicating poverty and overcoming underdevelopment.

Broadly, the core issue that this study seeks address is the pattern of winners and losers that is seen at global level yet replicated in local value chains as well. The question then is ‘why do some actors in a given value chain benefit more than others? This question is not only considered from the amount of value-added but also from the institutions within which a given value-chain is embedded, the regulations and technology aspects as well as the social-economic relationships between actors within the chain. Ultimately the study seeks to unmask the strategies and or policies that can alter this pattern.

This section is a review of literature on the global value chain approach upon which the theoretical foundation of my study will be cast. I begin by tracing the historical background of the GVC approach and then discuss the key analytical concepts that make up Global value chain (GVC) framework. I later present the structure of GVCs in different industries/sectors after which I give an overview of agriculture value chains in Africa. Finally, I look at the application of the GVC in this study by highlighting the elements that are relevant and introducing the sustainable livelihoods framework as a complementary framework in view of the limitations posed by the GVC.

Historically, the value chain analysis gained its prominence in the early 1990s as a new tool for understanding the dynamics of globalization and international trade. Prior to the 1990s, there existed internationalization which refers to ‘the geographical spread of economic activities across national boundaries’ which tended to deal with final products. However the early 90s were swept with a wave of globalization. Globalization is a decline in barriers to information, factors and technology which results into functional integration between the formerly internationally dispersed activities, production is characterized by sub-components and services. The coordination of these activities is carried out by actors who are either in centralized or decentralized economic structures. (Gereffi, 1994: 96)

Bair (2005) traces the origins of the global value chain (GVC) approach to the world-systems research by Wallerstein and Hopkins (1977, 1986) which began to make references to commodity chains in the 1970s. Overtime, the world systems approach was seen to be tied to the historical analysis of commodity chains and thus scholars sought to find a framework that

could deal with contemporary development issues to move away from the ‘world’ as a sole unit of analysis but also taking into account the smaller units embedded in the larger unit. The paradigm of global commodity chains (GCC) was introduced by Gary Gereffi and others in their 1994 publication on ‘Commodity Chains and Global Capitalism’. This approach became popular among social science researchers and in a bid to find a more inclusive wording, the terminology changed from the original GCC to Global Value Chains (GVC).

When going through the literature on value chains, the first observation is that there are different names (or labels) that refer to value chains. Early in the literature are the writings of Michael Porter in the mid-1980s. In Porter’s usage, the analytical concept of value chain was limited to the level of the firm. Here, value chains are considered in terms of intra-link functions such as the process of supply which involves inbound logistics, the transformation of these inputs into outputs and the support services that the firm musters to accomplish these activities such as strategic planning, human resource, management, technology development and procurement. He distinguishes between this intra-link and multi-linked value chain that he refers to as a *value system*. In other words, the terms value chain and value system are taken to imply company strategies in the management of relationships with other firms (Porter, 1990: 43-4 as cited in Dolan and Humphrey 2000:149). However, Porter’s framework ignores the reciprocal influence of firms, the institutional framework and the extent to which value chains are influenced or constrained by non-economic activities (embeddedness) (Henderson et al, 2002; Stamm, 2004).

A French variant to value chain is termed ‘*filière*’ which came out of French agricultural policy. It was developed in the 1970s by French economist with the purpose of understanding the structure of economic processes within the production and distribution system. It is defined ‘a system of agents producing and distributing goods and services for the satisfaction of a final demand’ (Henderson et al, 2002: 439). While the framework identifies and maps the actors and networks within the *filière*, it does not fully cover their agency and role in shaping the chain structures. The method is used to study agriculture export commodities such as rubber, cotton, coffee and cocoa- focus on francophone Africa but a minimal attention to globalization (Gereffi et al, 2001; Stamm, 2004; Neilson and Pritchard 2009, Raikes et al 2011).

In the late 1990s, the concept of Global production network was introduced. Proponents of this approach argue that the GPN considers not only the vertical concerns as may be implied

by the GVC but also the horizontal aspects of production. They argue that the usage of the term 'network' as opposed to chain is aimed at capturing the thickness and complexities of interconnections in global economic activities (Neilson and Pritchard, 2009). However, Stamm (2004) argues that this concept is more relevant for the electronics and ICT industries where you have highly complex 'value networks' or value chains.

In the mid-1990s, Gereffi developed a framework called 'global commodity chains'. This conceptualization focuses on the power relations which are embedded in value chain analysis and ties the concept of value-added chain to the global organization of industries. It is this conceptualization that many researchers in value chain have developed further into different analytical frameworks.

### **The GVC approach**

Simply put a value- chain refers to a sequence of activities required to make a product or provide a service from conception through the different phases of production. It involves material, product design, product development, quality control, marketing and delivery to final consumers and final disposal after use, as well as the interactions between these stages. The term 'chain' suggests that these are vertical relationship between suppliers and buyers; however Kaplinsky and Morris (2000) observe that this may not always be the case in a real-life value-chain but that it may be characterised as a web of interconnectedness. Nonetheless, it is also right to say that the analysis is centred on the flows of material resources, finance, knowledge and information between buyers and suppliers (Riisgaard et al, 2010). Gereffi (1994) contends that the specific processes or stages are represented by nodes<sup>2</sup> that are linked in a web of interconnectedness. The global value chain approach involves analysing the structure, actors and dynamics of value chains as well as studying the typologies and locations of chain actors, the linkages between or the coordination of activities and the dynamics of inclusion and exclusion. It also involves understanding the distribution of economic value to the actors along the chain, the distribution of value-added and the role of standards in facilitating or hindering participation (Nelson and Pritchard, 2009:7; Bolwig et al. 2010:174)

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<sup>2</sup> The same are referred to as 'boxes' by Hopkins and Wallerstein (Raikes et al, 2011)

## **Analytical Concepts**

Recent developments in value chain research have resulted in value chain theorizations which provide analytical frameworks away from looking at value-chain narrowly as a descriptive construct that can result in the generation of data. Gereffi identifies four dimensions to which the organization of a product can be analyzed: (1) the input-output structure or the processes through which products are transformed from raw materials to final products, (2) the territorial structure or the geographical concentration and or dispersion of a product- this dimension looks the inequalities that result from the current configuration of the global economy that is such that the low valued activities are confined to the actors in the global south while the highly rewarding valued added activities are concentrated in north (Daviron and Gibbon, 2002; Humphrey 2005), (3) the governance structure or the power relations that determine how financial, material and human resources flow within the chain, and (4) the institutional context to consider how local, national and international contexts influence the activities within the chain<sup>3</sup> (Gereffi, 1995, Raikes, Friis Jensen and Ponte, 2000, Bair, 2005).

The input-out structure and the territoriality dimensions in the GVC have mainly been used descriptively to show the structure of specific value chains. The main analytical dimensions have been those relating to governance and the institutional framework. In addition to these four dimensions, another analytical concept that has emerged out of the GVC studies is that of upgrading which points to the policy prescriptions that result from the GVC framework (Bair, 2005; Raikes et al, 2011). The next section will look at the analytical concepts of governance, upgrading and institutions in respect to the GVC approach.

### **Governance in Value-Chains**

Governance is defined as a non-market coordination of economic activity. It occurs when some actors within the chain work according to the parameters set by others (Dolan and Humphrey, 2000; Gereffi et al, 2002; Gereffi et al, 2005; Humphrey and Schmitz, 2002; Ponte and Sturgeon, 2014). The interest in developing frameworks around governance issues in GVCs hails from the global pattern that shows that the lead firms are predominantly located in Developing countries as such there is a concern for access to markets for the Developing countries' firms.

Various scholars have come up with a nomenclature for the different forms that governance takes in GVCs. Some have categorized the different forms of governance based on the type of

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<sup>3</sup> The initial GCC framework, Gereffi (1994) only identified the first three dimensions, the institutional context was only added later (Gereffi, 1995) and has remained the least developed dimension of the four.

chain actors that act as lead firms. In this case Gereffi (1994) distinguishes between producer driven and buyer driven value chains. Producer-driven chains are characterized as capital and high technology industries such as the automotive industry and the lead firms or key agents are usually those that control the production systems i.e. the manufacturers. They are set in such a way that the not so highly rewarding activities are out-sourced upstream to a network of suppliers who are bound by contracts to produce according to the given specifications<sup>4</sup>. On the other hand, buyer -driven chains are mostly found in labor-intensive industries such as the clothing industry here parameters are set by large retailers and brand names whose focus is on the design and marketing and do not necessarily possess any production facilities. The producer-driven value chain is said to be more vertically integrated with strategic relationships with suppliers upstream while the lead firms in buyer-driven chains typically rely on non-institutionalized, short term relationships with their suppliers (Bair, 2005).

Gereffi et al (2002) further identifies 3 forms of governance which include inter-firm networks, semi-hierarchical relations between powerful lead firms and the other not so powerful yet subordinate firms in the chain and a third form of vertical integration within enterprises. In a later publication, Gereffi and others build on to his earlier works and identify five basic types of value chain governance, namely (Gereffi et al: 2005:82-88):

1. Markets- here, the cost of switching to new partners is low for both parties involved in the transaction.
2. Modular value chain- this involves suppliers in the chain making products based on customer specification, which may be more or less detailed. In the case of turn-key services, the supplier takes full responsibility of competencies surrounding technology, use generic machinery that limits transaction costs and materials on behalf of customers.
3. Relational value chain- here, there exists complex relationships between buyers and sellers which creates mutual dependence. This may be managed through reputation or family and ethnic ties.
4. Captive value chains- here small suppliers are dependent on much larger buyers. The suppliers face high switching costs and are therefore 'captive'. Such networks are characterized by a high degree of monitoring by lead firms.

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<sup>4</sup> Suppliers can stay in these position or compete amongst themselves to attain the position of 'preferred supplier'. Raikes et al note that this is also a temporal position which only last as long as the supplier meets the condition of the key agents satisfactorily (Raikes et al, 2011).

5. Hierarchy- this is characterized by vertical integration with managerial control as the dominant form of governance.

The conditions under which the above forms of governance apply are dependent on three factors identified by Gereffi et al (2005). First the complexity of the information and knowledge transfer required to sustain each transaction (product and process specification), the extent to which information and knowledge can be codified and therefore transmitted efficiently without transaction specific investments between the parties to the transaction and the third, the capabilities of actual potential suppliers in relation to the requirements of the transaction. In this case it entails that the Market governance arises when transactions are easily codified, product specifications are relatively simple and the suppliers have the capability to make the products in questions with little input from the buyers. Modular value chain governance arises when the ability to codify specifications extends to complex products. This comes about when product architecture is modular meaning the ‘physical building blocks’ of a product are loosely coupled and designed to be relatively independent of one another because of standardized interfaces and visible design rules, which permit some components and sub-systems to be disaggregated and recombined into a large number of product variation. In short, there is high complexity of transactions, high ability to codify transaction and high capabilities in the supply base. Relational value chain governance may arise were there’s a high complexity of transaction but low ability to codify transaction yet having a high capability in the supply base. Tacit knowledge has to be exchanged between buyers and sellers but lead firms gain motivation from highly competent supplier to the extent that they are able to outsource to gain complementary competencies. Captive governance occurs where there is a high complexity of transactions, high ability to codify transactions yet low capabilities in the supply base. This situation calls for great interventions and control on the part of the lead firm resulting in transactional dependence as the lead firms seek to lock-in suppliers to exclude others from reaping the benefits of their efforts. On the other hand hierarchy governance occurs when products specifications cannot be codified, products are complex and highly competent suppliers cannot be found, then lead firms will be forced to develop and manufacture products in-house. It is important to note that the market and hierarchy types of governance are extremes and rarely the case in reality rather the most common ones are from modular to relational (Gereffi et al, 2005:86).

Ponte and Sturgeon (2014), build further on the governance debate by stating that governance can occur at different levels within the value chain, away from the unipolar characterization

in much of literature. In addition to unipolar it can be bipolar or multipolar governance existing within a particular value chain.

Kaplinsky (2000) observes that chain governance can also be influenced by actors outside the chain such as the government agencies, international organizations and NGOs ( see also Nadvi, 2008). Following this observation, Kaplinsky and Morris (2002) use the three arms of government (Legislature, Judiciary and Executive) in civic society to identify three forms of value chain governance. First, there is '*legislative governance*' which includes the basic rules which outline the terms of participation in the chain. These have been changing overtime but currently include conformance to international standards such as ISO9000 (on product quality), ISO14000 (on environment) SA8000 (on labour) and more specific to food processing we have the phyto-sanitary standards and the Hazard Analysis and Critical Control Point (HACCP). Such a function could be exercised by parties external to the chain such as institutions or agencies that deal with environmental standards and labour. The Second is what they term '*judicial governance*' which involves auditing performance and checking compliance with the set rules. Judicial governance can be exercised by specialized firms monitoring ISO standards or by NGOs monitoring labour standards. The third is '*executive governance*' which is seen as a more proactive form of governance as it provides assistance to value chain participants in meeting the operating rules. This can be either directly by helping a supplier achieve quality standards or indirectly by forcing a first-tier supplier to assist a second tier supplier. This can be carried out by government industrial policy support or specialized service providers.

The duo argue that with this distinction, you are able to identify the different actors that are involved in chain governance therefore avoiding the misconception that all three functions in governance are performed by one firm. Further, there are multiple points of governance within a value chain and that governance changes overtime. Some value chains show very little or thin forms of governance while other chains may embody both producer-driven and buyer-driven governance based on Gereffi's conceptualization.

While there has been all these debates regarding chain governance and what it entails, the literature seems to all agree that there is an eminent component of 'chain drivers' or lead firms that drive the chain (Gibbon, 2002, Gibbon, 2008; Ponte and Gibbon, 2005, Ponte and Sturgeon, 2014). All these point have been pointing to the extent to which chain governance

improves or limits the capacity of individual actors (especially upstream) to improve their welfare within the chain hierarchy. This has led to a second contending concept of upgrading.

### **Upgrading in Value-Chains**

Upgrading is another concept of analysis within GVC research. It is a classic approach used to identify the possibilities for producers to move up the value chain hierarchy. Value chain actors 'are said to upgrade when they acquire new capabilities by making products that have more value added or improve the existing ones' (Ponte, 2011:88). Riisgaard et al (2010) have coined a much broader definition of upgrading that considers both horizontal and vertical aspects of a value-chain. They define upgrading as 'a desirable change in chain participation that increases rewards and/or reduces exposure to risk- where rewards and risks are understood both in financial terms and with regard to outcomes related to poverty, gender, labor and the environment' (Riisgaard et al, 2010:196).

The concept of upgrading was introduced by Gereffi a year after he introduced the global commodity chain framework in 1994. He used the GCC framework to analyse the upgrading trajectories of local firms in Asia through their participation in GVC. He concluded that the close working relations that emerge between local firms in the south and the lead firms in the north facilitated a steep learning curve because of their exposure to competition and this ultimately led to innovation. The issue was on how firms develop the skills and competences to participate in GVCs. (Neilson and Pritchard, 2009)

Dolan and Humphrey on the other hand show that local firms in the global south are confined to activities that offer no possibilities for upgrading. They also show that the high quality standards and requirements hinder LDC firms from participating in the value chains and consequently in global trade. Hence this concept lives true to the notion that globalization produces winners and losers. While some firms are able to benefit from inclusion into value chains and consequently led to overall industrial development others are excluded either due to inability to meet to meet the set standards or by virtue of being locked to non-value adding positions in the chain (Neilson and Pritchard, 2009).

Various scholars have identified four Upgrading trajectories or opportunities namely (Humphrey and Schmitz, 2002; Kaplinsky and Morris, 2002; Ponte and Ewert, 2009):

- a) Process upgrading- increasing the efficiency of internal processes to the extent that they are better than those of rival firms.

- b) Product upgrading- this involves introducing new products or improving old products with complex content
- c) Functional upgrading- this involves increasing value added by changing the combination of activities within the firm
- d) Inter-chain/ chain/ inter-sectoral upgrading- this involves moving to a new values chain/sector based on the competencies gained in another chain/sector.

While this categorization has and is useful as the point of reference when studying the participation of local firms in value-chains, not all GVC researchers agree with this. Successful upgrading is dependent on a myriad of issues including business-friendly operating environment for chain participants, new technologies and emergence of niche markets. Riisgaard and others (2010) observe that upgrading for small producers may require taking action at higher levels of decision making inside or outside the chain but usually far beyond the area of operation. Upgrading within the GVC analysis provides a framework of how countries can formulate their industrial development strategies. It is also useful for firms, as it enables chain actors to move to more lucrative positions within the chain. However, as Bair (2005) observes, the usage of the concept of upgrading does not adequately address the core questions of winners and losers in the global economy

### **Institutional Dimension**

The institutional framework dimension has been the least developed within the GVC framework as most studies focus more on governance. The danger in a sole focus on governance is the risks of failing to address some fundamental questions relating to the spatial organization of economic activities (Bair, 2005, Neilson and Pritchard, 2009). Nonetheless, this does not mean that the two dimensions are two opposites rather that they complement each other. While governance looks at the coordination structures that link chain actors, the institutional dimension represents the bigger picture showing that chain actors are embedded within particular social relations and geographies. In other words ‘institutions shape governance forms and governance is enacted through institutions’ and this link is defined by ‘struggle’ (Neilson and Pritchard, 2009:9). I will get back to this in more detail later in this section. The institution dimension to the value chain framework hails from the recognition that value-chains do not occur in a vacuum but exist within the context of institutions and supporting industries (Sturgeon, 2001).

Bair (2005) supports the focus on institutions and structures in which value-chains are embedded in order to facilitate an understanding of the social and developmental dynamics of how power plays out at the global-local nexus. Within GVCs the institutional focus is also useful in understanding why some chains are more competitive than others or rather why chain competitiveness may lead to overall industrial development in one chain but have different results in another.

Like most emerging analytical concepts, there is lack of a common thread in much of literature on what institutions actually comprise of nor is there a universally accepted definition for the concept of 'institutions'. While others see them simply as the 'rules of the game' others still consider them as formal organization frameworks (Gibbon, 2001:60).

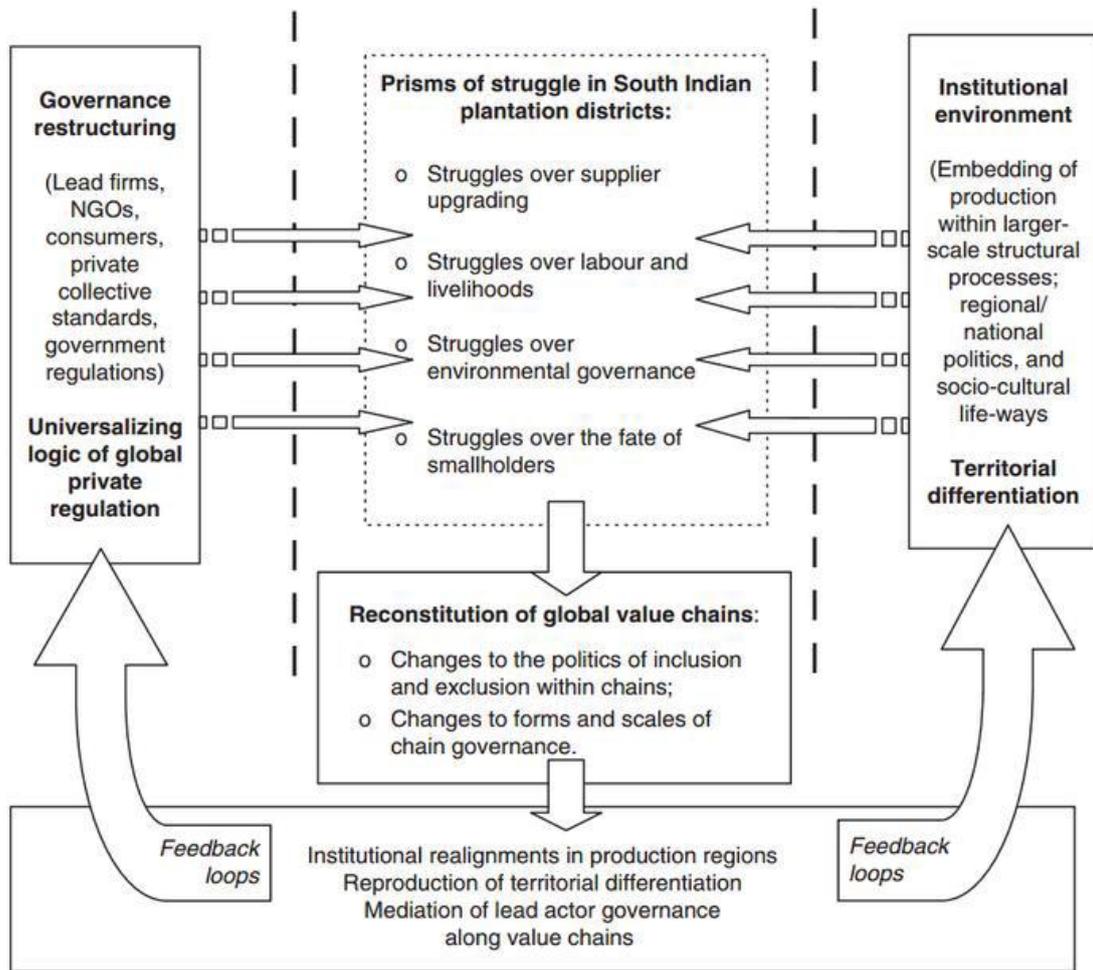
Institutions have generally been taken to represent the conditions and policies at different levels from local to global. In addition, Neilson and Pritchard (2009: 9) contend that institutions thus 'exist also as rules, norms and behavioral vehicles that shape the... essence of how product/commodity systems are organized.' In other words they include both the internal and external structural design of the value chain. This view is also echoed by North (2003) who argues that institutions comprise of the formal and informal rules both of which influence the goals of firms and organisations. Formal rules can be codified for example in the constitutions, laws and contracts while informal rules can be in form of conventions, codes of conduct, religious taboos, norms of behaviour among others. Sturgeon et al (2008:2) exemplifies institutions to include 'labour unions, industry association, legal and cultural norms, industry specific standards and conventions..' Nonetheless, the informal norms are said to be problematic as the constraints they cause cannot be seen in formal terms. They are said to be even more important than the formal rules as the formal only represent a handful of rules while the everyday guide to how a firm or organization should act are contained in informal rules. Both formal and informal institutions have their enforcement mechanisms (North,2003).

Scholars within the GVC approach have labored to analyse the role of institutions in structuring business and industrial relationship based on the understanding that the existing institutions in a particular location can either foster industrial growth or hinder it. Thomsen (2007) shows the relevance of institutions within the GVC approach through her work on the clothing industry in Vietnam which shows that entry barriers into the industry are not only constructed by the lead firms but also by the institutional context in the supplier countries. In

this case, she observes that the Vietnam political and economic context impacts greatly on the local producers who have an opportunity to sell their products directly to key markets, thus from a governance point of view, the chain is no longer buyer driven but state driven.

Neilson and Pritchard (2009) are among the few researchers that have extensively applied the institution dimension in their work. As earlier stated they see institutions and governance as co-produced elements within the GVC and that they are to a great extent complementary. This nexus is what they refer to as the struggle. The interaction between the new forms of governance and the changing institutional environments creates struggles and tension which in the end determines the position (economic returns and level of control) of individual chain actors (particularly small producers) in the local or global economy. This leads to the restructuring of the value chain. In their model (see figure below), governance restructuring and the institutional environment interact in a prism of struggle, the struggles over supplier upgrading, labour rights, livelihoods and environmental governance which leads to the reconstitution of global value chains in form of changes in the politics of inclusion and exclusion within value-chain. Ultimately, because the governance restructuring and the institutional environment are embedded in social relations, the two are constantly changing and influencing different outcomes in form of struggles. The unique characteristic of this model is the acknowledgement that value chain activities and governance thereof is bound by the context in which they occur or their context-specific.

Figure 1: Struggles over Global Value Chains with Institutional realignments



Source: Neilson and Pritchard, 2009:10

### Application of the GVC in Non-agro sectors

Value chains differ in terms of structure from sector to sector. This study focuses on value chains within the agriculture sector whose chain structure might differ from those in sectors such as apparel and the automotive industry. This section gives an overview of value chains in the automotive industry. As earlier alluded to, the dichotomy distinction of governance in value chains as espoused by Gereffi (1994) has also been seen to be more applicable to particular sectors or industries. Gereffi classifies the automotive industry under the producer driven chain. Sturgeon describes the automotive as one that has been rapidly changing, it has evolved from being a series of national industries to a more integrated global industry. (Sturgeon et al, 2008:6). The political pressure to ‘build where they sell’ has led to dispersed final assembly points. Other factors leading to the changes include customer preferences which may call for an alteration in the original design of the vehicle to suit specific markets.

However, while the industry has responded to such demands, the observation is that the main engineering work of the vehicle development remains centralized in or near the headquarters of the lead firms while the lighter and generic parts (mostly low profit) are produced at a distance, mostly in developing countries to take advantage of low labor costs and economies of scale. The result is that the 'local, national and regional value chains in the automotive industry are a 'nested' within the global organizational structures and business relationships of the largest firms'. These value chains are said to be laden with high barriers to entry (Sturgeon et al, 2008; Raikes et al, 2011).

Another industry with high application of the GVC approach is the apparel or clothing industry. This industry is characterized as highly buyer- driven similar to some agricultural products that exhibit similar tendencies in the case of supermarkets as the buyers who controlling activities upstream (growers and processors) (Dolan and Humphrey, 2000). It is highly labor intensive at the upstream with brand names and retailers as the key agents while the producers are the subordinate actors. Most of the subordinate actors again are found in developing countries especially Asia. Within the developing countries, the producers vary in stages that they participate in and also according to quality, with the lowest found in countries with lower wages and technology therefore low value-added. The key agents exert their influence as they are in charge of the designs, the brand and marketing (Raikes et al: 2011).

### **Agro-value chains in Africa**

The agro-value chains in Africa have undergone significant transformation over the last few decades. The sector was initially characterized by heavy state intervention in the form of credit based input system, subsidies, free extension services, marketing and in some cases price stabilization mechanisms. To avoid the dangers of over- supply, producing countries came together to form associations (at global level) for commodities such as coffee, cocoa and sugar cane for the purposes of price control. This worked until the collapse of the international cartels due to market saturation by non-cartel members (Gibbon, 2001; Neilson and Pritchard, 2009)

With the adoption of policies of market liberalization in most African countries, Ponte (2011) observes that the participation in agriculture industry value chains has produced mixed results. While certain actors and industry sub-sectors have become fully integrated into the global economy, other producers have been pushed further into the margins.

The majority of agro-value chains in Africa are said to be buyer-driven with retailers as the lead firms in the wine and horticulture subsectors while branded processors govern the coffee and cocoa value chains. Another set of powerful actors who do the day to day governance of the chain for the lead firms are found closer to the point of production. One striking observation is that there are no African lead firms in the global agro-value chains, save for the powerful suppliers (Ponte, 2011: 90). As a result, governance and upgrading opportunities for these value chains lie outside the control of external, non-African actors. Because of the challenges and potential risks associated with integration into global value chains, African producers have been looking into opportunities presented by the regional and local markets. The local and regional value chains are associated with their own challenges and having their own ‘chain-drivers’, however, it is believed that the requirements and standards demanded by these local firms may not be as far-fetched to meet as those presented by the foreign retailers, brands and consumers in developed countries’ markets. Nonetheless, Ponte (2011) in his empirical study shows that the outcomes of chains participation and the upgrading trajectory are not better or worse off in global, regional or local value chains.

Another notable application of the GCC or GVC approach in the African agricultural sector is a study done by Dolan and Humphrey (2001) on fresh vegetable chain between two African countries and the United Kingdom (UK) markets. The study shows that with increasing requirements in terms of health legislation and the supermarkets private standards, smallholder producers in Africa have been excluded from supplying in these chains and are being replaced by large-scale farms under the direct control of the lead firms in the North.

Based on these findings within the African agriculture sector, it can be said that the challenges experienced by small producers cannot be resolved by the lead firms (or the internal governance part of the value-chain) who are in the business of making profits but by appropriate strategies and policies from local institutions and governments

### **General weaknesses of the GVC approach**

While adopting this framework for analysis, I am aware of some of the weaknesses associated with the GVC approach. To begin with while a number of researchers have applied the GVC framework, the framework is still marred with inconsistent definitions and overlapping nomenclature. Different terms have been used to describe or discuss similar ideas. From the broader terms of value chain itself, we have similar terms used such as global

commodity chains, value systems, production networks and value networks among others. (Gereffi et al, 2001; Kaplinsky and Morris, 2002; Neilson and Pritchard, 2009).

Competing theories such as the global production network (GPN) have criticized the GVC on the usage of the chain metaphor. The concept of chain has been critiqued by Hughes and Reimer (2004), for being too linear and therefore neglecting aspects of human agency (Neilson and Pritchard, 2009; Challies and Murray, 2010). Here, Sturgeon et al (2008) counter argues that the usage of ‘chain’ is purposely simplistic to enable easy mapping of the location of industries and their linkages with other firms in producing a single product.

Another weakness levelled against GVC approach is on the operationalization of the concepts within value chain. Most key concepts within the framework such as governance, institutions and upgrading remain vague. Take for instance the literature of governance within the GVC framework, earlier writings by Gereffi (1994) posits a dichotomy of producer- driven and buyer-driven chains, however this categorization is rendered redundant in cases of value chains that lack strong control exercised by a lead firm. Further, there is lack of the theoretical underpinnings to help explain the differences between the two types of governance (Gereffi et al, 2001). However as Gereffi (2001) rightly put it, the concept of governance ‘is neither static nor exclusive as a defining feature of ...industries’ (Gereffi 2001:30) and so are the structures and other aspects of the GVC. This is because these are constituted socially hence subject to change overtime (Raikes et al, 2011).

## **LINKING THE GVC AND THE SUSTAINABLE LIVELIHOODS FRAMEWORKS**

This study takes a holistic approach to analyze the different effects of agro-value chains from the upstream, to downstream, this therefore not only involves looking at the processors and retailers but also the implication for smallholder producers in order to understand the contribution of value addition to the country. However, literature shows that much work around GVCs has been concerned about inter-firm relations and options for firm upgrading and only recently have the implications for smallholder growers been considered (Neilson and Pritchard, 2009; Nadvi,2004; Barrientos et al, 2003). To analyze the impacts of smallholder farmers and rural household participation in agro-processing value chains, it is important to move beyond the GVC participation or exclusion but to look at the terms and relations of participation (Kaplinsky, 2000). Inclusion and exclusion aspects within GVC

have in the past downplayed the terms of participation for actors within value chains. The two have mostly been looked at as competence or management problems (Bolwig et al, 2010). Kaplinsky (2000) argues that the terms for farmer participation or exclusion from agro-processing value chains are key in identifying opportunities and risk presented by the chain. The sustainable livelihoods framework provides insights on how households and individuals construct a living at the local scale. Like the GVC, the livelihoods approach takes into account the institutional context that frames the household strategies and activities.

The overall GVC framework will therefore require an understanding of the social and economic determinants and impacts of participation on agro-processing value chain in addition to other key GVC interests such as high productivity, incomes and functional upgrading. In this case GVC and livelihood approaches complement each other and help in redressing weaknesses in each approach.

This study will therefore incorporate elements of the Sustainable livelihoods framework in order to integrate the vertical (dynamics within the value chain itself) and horizontal (determinants and implications for smallholder growers' participation in the value chain) aspects in the analysis.

In summary, this section has presented the GVC framework and its key concepts based on the review of literature. The literature has shown that while the GVC framework has four dimensions, the governance dimension has been the focal point in most of the studies. Recently some scholars have realized that all four dimensions are interrelated and that one may influence the other. Therefore, in order to understand the structure of a particular value chain (distribution of benefits along that chain, its key agents or drivers, and the patterns of inclusion and exclusion) the mapping of the input-output structure and territoriality and an analysis of governance and institutional environment is relevant. Literature also shows that agro-value chains within African have produced mixed results; some sub-sectors are fully integrated into the global market while other producers or sub-sectors are excluded. This has led to a new trend where producers are targeting regional and domestic markets which also pose their own challenges. It has also pointed to the limitations posed by the GVC framework in its original form to analyse the terms of participation for smallholder producers or rural households. To this effect, the study incorporates elements of the sustainable livelihoods framework to analyse the impacts for smallholder farmers.

## **METHODOLOGY**

This section presents the methods and procedures that will be used to collect data during the study. Mikkelsen (2005) makes a distinction between a research method, techniques and tools. Research methods can be defined as a set of 'approaches to gather evidence and analyse specific problems, while the concept of a technique refers to a practical way of collecting and analysing data obtained during the research process. Tools refer to the actual instruments that are used in the process.

## **EPISTEMOLOGY AND ONTOLOGY CONSIDERATION**

According to Bryman (2006) choosing between quantitative research and qualitative research entails having different epistemological and ontological considerations. While quantitative research is concerned with quantification in the collection and analysis of data, qualitative research has its emphasis on how individuals interpret their social world.

From this background this study takes a qualitative approach and my epistemological orientation is critical realism. Critical realism is the philosophy that holds that the material world exists independent of human consciousness and its very independence entails that human knowledge does not depict reality but is a representation of it. Further, the way we experience the world does not constitute reality or in other words the world does not correspond to the range of our senses (Sayer, 2000).

The study aims at understanding the dynamics of agro-processing value chains and to analyse the impacts of such participation for the different chain actors and the influence of institutions in which these value chains are embedded on chain actors. In this case, critical realism recognises that people's roles are often internally related, the way a person, firm or institution acts depends on their relations to others. It also recognises that people and institutions are also affected by elements that are external to their existence.

This philosophy also acknowledges that the categories or terms employed to understand certain reality are provisional, in this case that value chain and livelihood frameworks employed and their terms are just a way of understanding reality and subject to modification depending on my observation of the empirical in the field.

Kitchin and Tate (2000) also add that critical realism is concerned with examining the underlying mechanisms and structures which shape the pattern of social relations in an attempt to understand reality. Similarly this study seeks to understand the mechanisms and structures that drive the action of chain participants and how they relate with one another.

According to Sayer (2000, critical realism's world view is that of a stratified reality of which only some aspects of reality are observable to the research. It holds a stratified ontological view of the world as being divided into three domains- the 'real', the 'actual' and the 'empirical'. The 'real' includes whatever exists be it natural or social regardless of how we perceive it. It is the realm of objects their structures and power, be they physical (minerals) or social such as bureaucracies. The 'actual' refers to what happens if the power of the objects in the 'real' are activated, the powers in the real can either be activated or remain dormant. The empirical on the other hand is the domain of experience in respect to the 'real' or 'actual' and occurs whether or not we know the real or actual. This is the domain in which we acquire knowledge about the world. However certain aspects of the real are remain unknown, more so for cases were their power structures remain dormant in the actual thus cannot be experienced in the empirical. It is possible to observe certain structure such as a firm or household and what happens when they act, but some structures within these may not be observable. From this understanding, it entails that as a researcher, our knowledge is fallible and we cannot claim full knowledge of a phenomenon rather, we strive to provide adequate findings (Sayer, 2000)

### **Qualitative Research Design**

In terms of methodology, the study will employ a qualitative method of inquiry. The choice of using a qualitative approach is influenced by the nature of the problem to be investigated which is such that it requires to be explored because of the need for a complex and detailed understanding on how agro-processing value chains work and the patterns of inclusion and exclusion from participation in these value chains (Cresswell, 2007).

Within the broader qualitative methodology, this study will be more inclined to the use of ethnographic methods of assessments which include in-depth interviews, focus group discussions, filmic approaches and mappings. This method is plausible because of the need to map the various actors along the value chain and their relations to one another, mapping the livelihood options for the smallholder producers and how this influences their participation from the chain, identifying the lead firms and the nature of chain governance as well as identifying the external institutions that have an influence on the value-chain (s) in terms of governance and upgrading. The purpose of mapping the value chain is to give a visual presentation of the chain actors and the connection between them. This is what will constitute primary data. On the other hand secondary data will comprise of government reports and

publication, financial records from firms, stakeholder minutes and reports among other documents.

The following are the specific tools that will be used to construct primary data and they are explained further below:

**In-depth interviews:** this technique involves asking questions to probe a particular theme. In this case, the in-depth interviews will be conducted among the primary respondents at firm level. The technique will be useful especially when talking to the firm managers regarding the changes that they have observed in the sector over time and the strategies they have been employing as well as their core capabilities.

**Semi structured interviews:** This involves the formulation of open ended guide questions for interviews which are controlled by the interviewer (Kitchin & Tate, 2000). This tool is about listening to what people say and being non-judgemental. It involves talking with people in ways that are self-conscious, orderly and partially structured (Clifford, French & Valentine, 2010). In this case an interview guide will be formulated prior to field work but the actual questions will be developed during the process of data collection in the field. This tool will be used when talking to government officials at the line ministries such as the Citizens Economic Empowerment Commission, the Development Bank of Zambia, the Zambia Development Agency, the Ministry of Commerce Trade and Industry, the Ministry of Agriculture and representatives of other relevant institutions such as those that offer services to agro-processing firms, business associations, Farmer's union and those that have linkages with the sector.

**Direct observation:** this involves placing myself at the centre of action in the study areas to see how participants get by in their work. It is the systemic observation of event's processions with a view of collecting information relevant to the research being undertaken (Clifford, French & Valentine, 2010). The tool is used to collect and cross check information. It is not usually used by itself, but with a combination of other tools such as the interviews, and it helps to fill in the gaps left during their application. It is also used to detect non-verbal signs which help to assess the reliability of the respondent. Observation will lead to the continuous development of more questions that will be asked during interviews.

**Audio visual materials:** Filmic approaches such as taking photographs of the premises of the firms, the technology and products produced as well as other interesting features found within the working environment of chain participants will be used. The purpose of this tool is to give

more vivid and clear illustrations of the findings and responses from participants. Nonetheless, I will be conscious as a researcher based on my position that films/photos and other audio visual materials do not depict reality but a representation of it and it also depends on what message the researcher wants to put across. (Crang and Cook, 2007). In addition, these materials are useless without bringing to light the context- i.e. place and textualising it in caption. Further, I will follow all the ethical procedures when using such methods such as seeking participants' consent prior to using such visual materials.

### **Sampling and Data Analysis**

The ethnographic approach adopted for this study gives grounds for including participants who are affected or concerned with the research problem in the sample. Thus the participants in the study will be selected purposively as they meet the criteria and based on their willingness to participate.

Field materials will be analyzed with the help of hermeneutics, which is concerned with 'the theory and method of the interpretation of human action' (Bryman, 2008:15). This will be useful for this study because the collected data will be based on human actions and utterances.

Once data is gathered, it will be transcribed and organized in themes. The data will be interpreted using academic theoretical analytical frameworks and language while making a clear distinction between emic and etic knowledge (Crang and Cook, 2007). Data will be analysed mainly through an interpretative approach relying on patterns, categories and main themes as basic descriptive units. The description of the data is aimed at providing insights and understanding of the practices as observed at different levels (farm, firm and retailer). On-the-spot partial analysis will also be used because the methodology adopted is very flexible and allows for data to be analysed during the process of data collection. This will enabled me to identify the gaps in the data collected while in the field making it easy to collect more information to remedy the gaps and also to make some follow-ups.

### **ETHICAL CONSIDERATIONS**

Ethical considerations are imperative for a study such as this one. Ethical aspects, such as getting permission from the firm to participate in the study will be considered. In addition, confidentiality where requested by the research participants will be given. While in the field I will have to find answers to questions such as, 'who do I seek permission from? What institutions should authorise this study?' Further, I hope that showing the primary respondents how I capture their responses prior to publishing them, getting participants consent prior to

using any audio material and showing them the photo/film before publishing so that they can give consent that it is a true representation or depiction of their firm among other issues, will not only validate my findings but will also ensure that the aspect of ethics is taken care of in this study. The aspect of reciprocity will be considered where final research findings will be available to the participants.

## **VALIDITY AND RELIABILITY OF RESEARCH FINDINGS**

Validity in research is concerned with the legitimacy of the research findings, while reliability refers to the extent to which a study produces consistent findings on repeated trials (Mikkelsen, 2005). However, qualitative methodology adopted for this study rests on the epistemological premise that a researcher can only offer his or her interpretation of the responses from the study participants. The meaning of these responses is context bound and cannot be separated from the context. Therefore if meaning is context specific, then there is no such thing as correct or objective interpretation. The primary aim in qualitative research is to acquire a better understanding of the issues being investigated from the perspective of the study participants (Slevitch, 2011). Qualitative research does not concern itself with questions of validity or objectivity but rather with credibility and dependability. It also does not look at generalisation of research findings believing that knowledge is context specific, rather it looks at the extent to which research findings can be transferable (Creswell, 2007).

Credibility of findings depends on the extent to which the analysis corresponds to how the study participants really interpret and construct their realities. Validity in this sense is the extent to which a description is credible (Slevitch, 2011).

Therefore to ensure that this study produces credible and transferable results I will adopt a within-method triangulation. This triangulation involves the use of multiple data collection techniques such as those that I have described above as well as adopting a multi-source approach in data collection. The variety of techniques and data sources will make it possible to cross-check information in order to enhance its credibility. Further, in qualitative research, being aware of and accepting one's personal biases is part of validating the research. Researchers may frame their questions and shape their studies based on their personal experiences and personal bias. As a researcher, I have acknowledged that my biases in framing the topic could relate to my academic background and personal interest.

It is also important to note that the results of this study will be context specific, meaning they will be much more applicable to the value chains that will be studied and cannot therefore be

inferred on the entire agro-processing sector in Zambia. Nonetheless, the findings will still provide an understanding of the dynamics of local agricultural value chains which could be relevant for the sector in Zambia and across the region.

The study's credibility will also be enhanced by using thick, rich descriptions of the setting at farm, firm and retailers level contrary to thin descriptions that lack detail and only report 'facts' (Cresswell and Miller, 2000) Rich description also enables readers to make decisions about the applicability of the findings to other settings or similar contexts.

### **Research Limitations**

Some of the limitations which I am aware of but cannot totally eliminate are based on the qualitative approach that will be used in this study which requires more time in order to enable one to understand the dynamics of agro-processing value chains and their surrounding environment in depth. To counter this threat, I will collect as much secondary data as is possible prior to embarking on field work so as to gain a deeper insight of the study sector and the target value chains where information is available. I will also familiarise myself with Government documents relating to promotion of the private sector development, agriculture marketing and input support programmes and agro-processing. The use of digital voice recorders (where acceptable) will be engaged so as to have maximum utilisation of time in the field as this will be more efficient and faster compared to jotting down notes

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