

AGRICULTURAL VALUE CHAINS

Engines of inclusive rural economic development?

Summary

Agriculture is an important economic sector in many developing countries. A large proportion of the world's poor people live in rural regions and work in agriculture or its upstream and downstream sectors. The aim of poverty-oriented promotion of agricultural value chains, which emphasises modernisation and connectivity to markets, is to put resource-poor smallholder producers and processors in a better position to increase their production and productivity, to improve the quality and marketing of their products, and consequently to generate higher incomes. At the same time, it aims to contribute to poverty reduction by creating paid employment in primary production, in processing or in trade. Also, since the food crisis of 2007/2008 the promotion of staple-food value chains has increasingly been deployed with a view to improving food security.

Under the value-chain promotion approach, activities take place both on the micro level, with actors within the value chain, and with state and private-sector organisations on the meso and macro levels. Within this framework, value-chain promotion draws upon a multitude of different activities. These range from the provision of advisory services, financing, inputs and business management training, to the promotion of institutions supporting business relationships between the different actor groups in a value chain.

Against this background, a DEval evaluation on agricultural value chains concludes that value-chain promotion is an appropriate approach for improving the living conditions of people in rural areas. Nevertheless, the following main constraints and challenges are found:

- Value-chain promotion does not reach chronically poor people because a minimum level of resources (e.g. land, knowledge, capital) is a necessary prerequisite for inclusion in a value chain.

These groups can only be reached indirectly, at best. In order to support these people, other development cooperation measures need to be put in place.

- Value-chain promotion is a versatile approach and therefore appropriate for achieving a range of development objectives and reaching different target groups. However, this can easily lead to setting excessive objectives, which overextends both the value chain approach and the capacities of projects and programmes and detracts from the quality of the promotion.
- Because of its complexity, value-chain promotion requires continuity over a sufficient period of time to introduce production-related, organisational and institutional innovations and to empower the actor groups to respond flexibly to developments in the business environment. This makes particular demands upon the planning, steering and monitoring of projects and programmes.

The promotion of agricultural value chains in the context of rural development

The promotion of agricultural value chains has been a central element of German development cooperation in the field of agriculture and rural development since the beginning of the 21st century. In accordance with the criteria defined within the scope of the evaluation, the only projects and programmes to be analysed more closely were those engaging in systemic promotion, i.e. support for the entire system of a value chain. Systemic promotion targets multiple stages of the value chain and represents an interplay of various activities and actor groups on different levels (micro, meso, macro).

The evaluation (Kaplan et al., 2016) examined whether and how value-chain promotion in German bilateral development cooperation (see box) contributes to poverty reduction and food security.

Systemic promotion of agricultural value chains in German development cooperation

An inventory of the entire portfolio of German value-chain promotion found that, during the time-frame 2003 – 2013 covered by the evaluation, a total of 48 projects and programmes with a systemic value-chain reference were carried out. It is a promotion portfolio of considerable breadth, involving a variety of implementing organisations (GIZ, KfW, DEG, sequa, PTB).

On the level of projects and programmes, two higher-order promotion approaches can be identified: the “structure-oriented approach”, where the central focus is on promoting business relationships between the actors participating in a value chain, whilst also including meso-level supporting organisations (e.g. state and private-sector advisory organisations, financial services providers) in the promotion so as to make innovations and services more accessible to value-chain actors and to ensure the sustainability of the promotion; and the “firm-centric approach”, which puts the primary emphasis on supporting business relationships of local firms and producers with selected, mainly transnational firms. In addition, numerous hybrid forms of the two approaches exist.

The spectrum of promoted products is also broad: it encompasses staple foods (e.g. rice and maize) as well as all subcategories of higher-value and specialised (export) products. The reduction of poverty is the central objective of most of the projects and programmes. Moreover, in recent years the improvement of food security has featured more frequently as an additional objective. Other significant, though varyingly weighted, objectives are the promotion of gender equality, private sector development, environmental protection and resource conservation.

Contribution of value-chain promotion to poverty reduction and food security

Value-chain promotion is a flexible approach which makes use of varied activities to solve the highly diverse challenges that arise within the chains. In the course of the evaluation, five main intervention areas were identified in which the activities of German development cooperation can be located:

- **Private sector development:** Alongside concrete activities to promote business plans, book-keeping and financial planning within the framework of various training formats, e.g. at farmer business schools, the measures also promote business development for micro, small and medium-sized enterprises (MSMEs).
- **Market development:** This intervention area comprises aspects of market access or of (physical) infrastructure for transportation and markets. Important activities revolve around connecting actors to national and international trade fairs and to innovative market information systems, e.g. mobile technologies from agricultural advisory service providers.
- **Organisational development, institutional development, development of business relationships:** The promotion of stable actor relationships in this central intervention area takes the form of promoting organisations and associations, establishing steering committees along the value chain, initiating stakeholder forums and exchange platforms, and supporting public-private dialogue.
- **Access to information, technologies, advisory and financial services:** Promotion in this area supports actors by creating training materials and strategies, delivering training on the introduction of technologies and process innovations, and providing innovative financial services.
- **Quality standards and certification:** German development cooperation addresses the challenges in this intervention area by supporting the introduction and implementation of standards and certification with training courses and financing, and by setting up and supporting services – especially of certification bodies and advisory service providers.

Value-chain promotion is an appropriate way of integrating smallholder producers and other rural target groups of development cooperation into value chains. Consequently it makes important contributions to poverty reduction and food security. Various challenges and constraints are associated with the attainment of these objectives, however:

Risk of setting excessive objectives

Value-chain promotion can unlock synergies across the spectrum of actors for the promotion of rural development and contribute to various development objectives. Without proper prioritisation, however, this harbours a risk of pursuing too many objectives. As a result, the promotion loses its clear profile and can no longer contribute adequately to all the target dimensions addressed. The elaborate steering required frequently overstretches the limited time, human and financial resources of the programmes and projects and the development partners.

Not all target groups of development policy are reached

The target groups reached by value-chain promotion can be classified as “poor”, for the most part. Nonetheless, participation in a value chain requires a minimum level of resources, such as land, capital and knowledge. These requirements present a barrier to entry for certain population groups. Thus, the chronically poor cannot be reached directly by the promotion, a fact that is also emphasised by Seville et al. (2011), among others. Landless households can only benefit indirectly from the value-chain promotion, as workers in agriculture and/or in its downstream industries. On the other hand, resource-poor smallholders can be reached and thus increase the broad-scale effectiveness of promotion if risk-reducing strategies – e.g. contract farming systems or insurance schemes – are available as part of the value-chain promotion. This is an opportunity to involve private-sector companies, which can often make important services available for producers more effectively than state institutions.

Another factor that influences the broad-scale effectiveness of the promotion is the choice of the product to be promoted. For instance, although staple foods for the domestic market offer lower profit margins than higher-value export products, they also present lower barriers to entry and lower risks (e.g. in relation to global price fluctuations). Furthermore, compared to products for export, the promotion of staple foods for the domestic market has more direct effects on food security. Both contribute to improved access to food by generating higher incomes. However, the promotion of staple foods also improves the

availability of these foods in local markets. Therefore, before the start of a project or programme, it is always recommended to examine the possibility of promoting staple foods, especially in food-insecure regions.

The complexity of value-chain promotion as a challenge and an opportunity

Value-chain promotion can be designed very flexibly so that outcomes can be achieved across the spectrum of actors at different stages of the chain. The planning and implementation of such a complex approach is not tackled systematically in German development cooperation, however. Comprehensive ex-ante analyses that could serve as a basis for criteria-based choices of target groups, objectives, products and activities are rarely carried out. Moreover, there is no reporting standard or monitoring system tailored specifically to value chains. This makes it almost impossible for projects and programmes to review the outcomes achieved.

The current commissioning procedure has resulted in less flexibility for projects and programmes. Yet flexibility is necessary if particular activities are to be tested over a certain period of time and adapted if they are failing to deliver the expected outcomes. It also means that the promotion cannot respond flexibly to external dynamics such as shifts in demand or price changes on the international markets. No less importantly, some value-chain-specific activities require longer periods of time to produce outcomes such as the establishment of trust, cooperations and business relationships.

Conclusions and recommendations

Value-chain promotion makes important contributions to the reduction of poverty and to the improvement of food security in rural regions. For the purposes of increasing the effectiveness and sustainability of value-chain promotion, the evaluation arrives at the following recommendations:

- In order to avoid the pursuit of excessive objectives, value-chain projects and programmes should specify a clearly defined set of priorities relating to objectives and target groups, and the profile of the promotion should be consistently aligned with it, e.g. as regards the choice of product to be promoted.

- To do justice to the complexity of value-chain promotion, implementing organisations should carry out context analyses and gender-differentiated target-group analyses in advance. This permits a criteria-based choice of the product to be promoted and the elaboration of promotion activities matched to the constellation of actors and, especially, the needs of the target groups.
- The often inadequate differentiation of target groups in the conception of projects and programmes harbours the risk that chronically poor people and other marginalised groups may be inadvertently overlooked by development cooperation, due to a basic assumption that all groups can potentially be integrated. In order to reach chronically poor groups within the population, other activities need to be implemented in addition to value-chain promotion. The integration of risk-minimising strategies (e.g. saving, insurance, contract farming) into value-chain promotion can contribute to the inclusion of risk-averse smallholder producers with limited resources, and thus increase the broad-scale effectiveness of the promotion.
- Value-chain promotion requires long-term planning certainty combined with flexibility. Value-chain projects and programmes should therefore be given the scope to schedule project cycles flexibly. This should enable them to include an orientation phase in which they can conduct the necessary systematic value-chain analyses and carry out initial pilot measures. Decisions about the duration of projects and programmes should be reached on the basis of these initial experiences. Greater flexibility in the promotion also allows actors to react appropriately to external dynamics such as changes in demand.

References

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