

The Value Chain Approach to Economic Development and Poverty Reduction

Taking a value chain approach to economic development and poverty reduction involves addressing the major constraints and opportunities faced by farmers and producers, processors, traders and other businesses at multiple levels and points along a given value chain. This will inevitably include a wide range of activities such as ensuring access to the full range of necessary inputs, facilitating access to cheaper or better inputs, strengthening the delivery of business and financial services, enabling the flow of information, facilitating improved market access, or increasing access to higher-value markets or value-added products.

What is a Value Chain?

A value chain links the steps a product takes from the farmer to the consumer. It includes research and development, input suppliers and finance. The farmer combines these resources with land, labour and capital to produce commodities.

In the traditional selling system farmers produce commodities that are "pushed" into the marketplace. Farmers are isolated from the end-consumer and have little control over input costs or of the funds received for their goods.

In a value chain marketing system, farmers are linked to consumers' needs, working closely with suppliers and processors to produce the specific goods consumers demand. Similarly, through flows of information and products, consumers are linked to the needs of farmers. Under this approach, and through continuous innovation, the returns to farmers can be increased and livelihoods enhanced. Rather than focusing profits on one or two links, players at all levels of the value chain can benefit.

An integral component of the value chain is the agricultural supply chain, and in the literature these terms value chain and supply chain may at times be used interchangeably, or are at least closely related.

Elements of the value chain concept are also incorporated within the Innovation Systems Approach adopted by RIU. This involves the use, adoption, uptake, or commercialization of existing knowledge. Successful innovation requires not appropriate research outputs, but also relies on a supportive policy and institutional environment, the availability of credit and technical support, and the existence of healthy markets and functioning infrastructure. It is also likely to involve a wide range of key actors from farmers through to policy makers, private-sector companies, entrepreneurs, as well as journalists.

Value Chain Analysis

Value chain analysis facilitates an improved understanding of competitive challenges, helps in the identification of relationships and coordination mechanisms, and assists in understanding how chain actors deal with powers and who governs or influences the chain. Developing value chains is often about improving access to markets and ensuring a more efficient product flow while ensuring that all actors in that chain benefit. Changing agricultural contexts, rural to urban migration, and resulting changes for rural employment, the need for pro-poor development, as well as a changing international scene (not least the increase in oil prices) all indicate the importance of value-chain analysis.

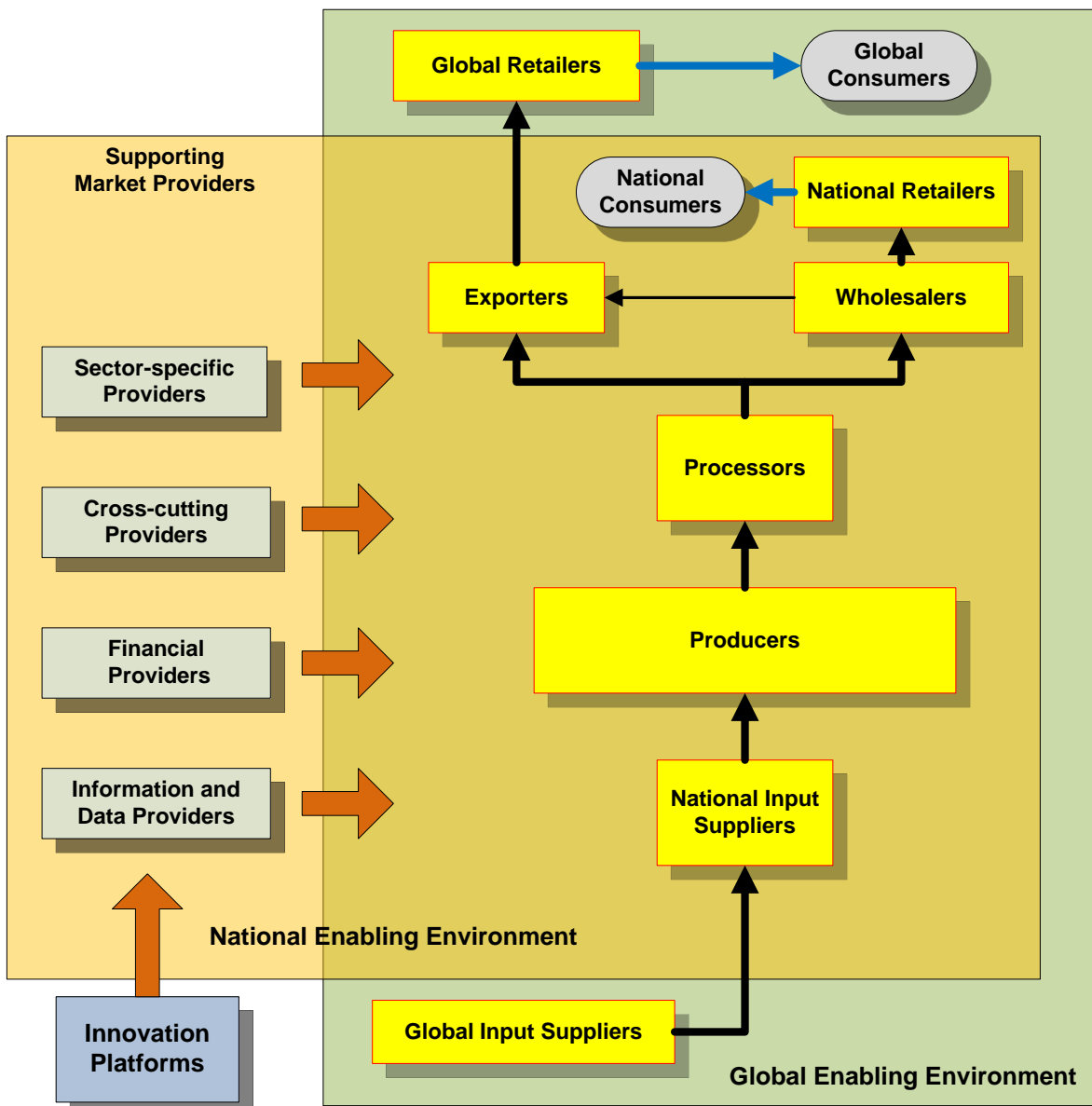


Figure 1. An overview of a conceptual Value Chain

Adapted from World Report Fall 2006: The Value Chain Approach; Strengthening Value Chains to Promote Economic Opportunities. ACDO/VOCA. http://www.acdivoca.org/852571DC00681414/ID/resources_worldreportfall06

Traditional Selling Systems compared with a Value Chain marketing System

In the traditional selling system (Figure 2), farmers produce commodities that are "pushed" into the marketplace. Farmers are generally isolated from a majority of end-consumer and have little control over input costs or process received for their goods. The primary exception is where local farmers sell produce in local markets and where there is a direct link from farmer to consumer. In most traditional selling systems farmers/producers tend to receive minimal profit. Any integration up or down the value chain can help.

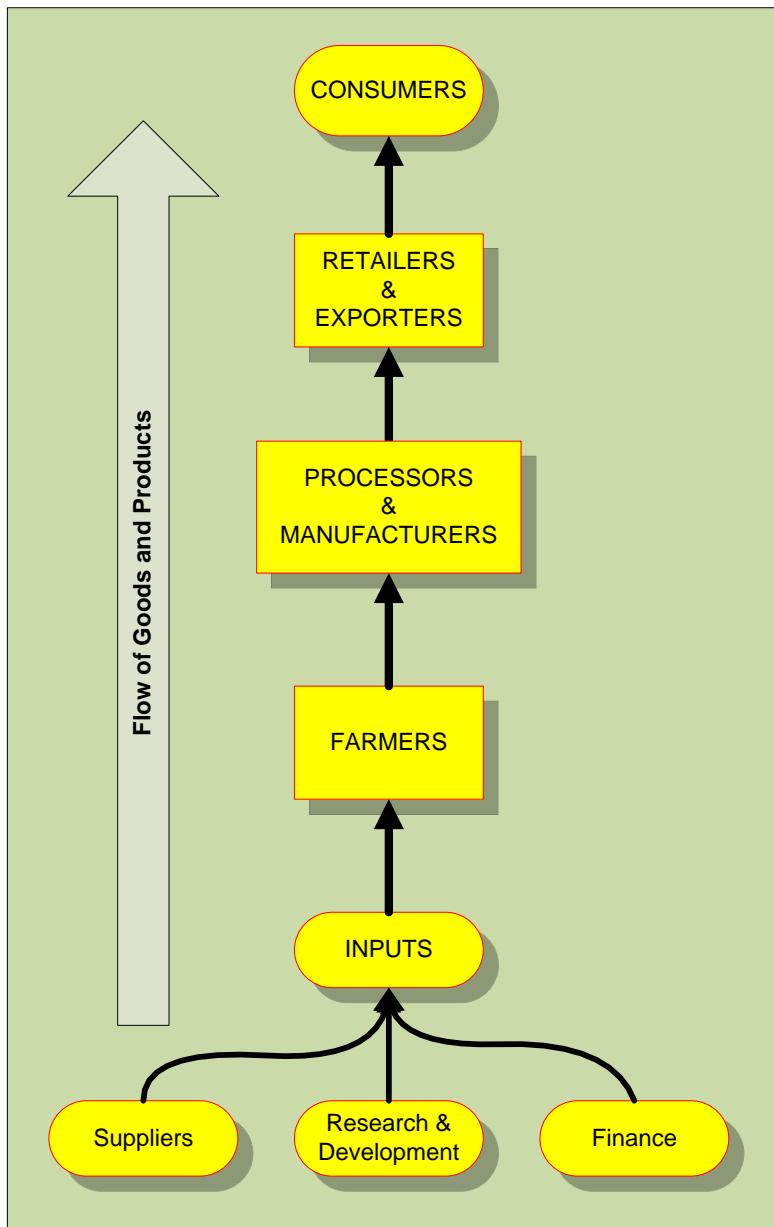


Figure 2
Traditional Marketing Systems

Market "Push" tends to be based on independent transactions at each step, or between each node. Products may often be sold into a crowded and competitive market. The farmers is largely isolated from the consumer, and from the demands and preferences of consumers.

Research and Development is focused on production and on reducing costs of production, and may not take account of other steps, links, or dependencies in the chain (e.g. environmental or social costs).

In a Value Chain marketing system (Figure 3), farmers are linked to the needs of consumers, working closely with suppliers and processors to produce the specific goods required by consumers. Using this approach, and through continuous innovation and feedback between different stages along the value chain, the farmer's market power and profitability can be enhanced. Rather than focusing profits on one or two links, players at all levels of the value chain can benefit. Well functioning value chains are said to be more efficient in bringing products to consumers and therefore all actors, including small-scale producers and poor consumers, should benefit from value chain development.

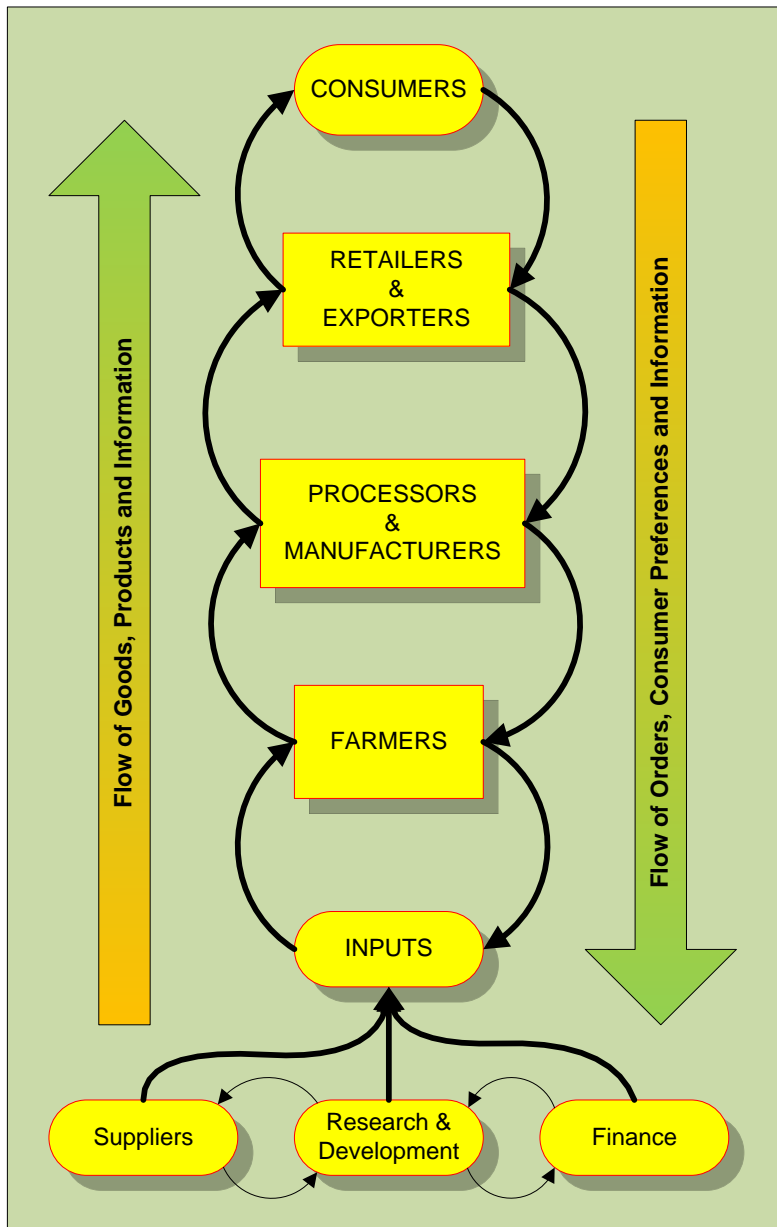


Figure 3
Value Chain Marketing Systems

The market “Pull” is based on integrated transactions and information. Consumers purchase products that are produced according to their preferences. The farmer becomes the core link in producing the products that the consumers desire.

Research and development, whilst including techniques targeted at increased production, is also focused on consumer needs, and attempts to take account of all of the links, and dependencies in the value chain, e.g. processing, environmental and social costs or considerations, as well factors such as health impacts, education and learning.

Communication is in both directions. It is important that both consumers and processors are made aware of factors limiting production, just as much as farmers and other producers are made aware of consumer requirements.

Resources

<p>ACDI/VOCA (2006). World Report Fall 2006: The Value Chain Approach; Strengthening Value Chains to Promote Economic Opportunities. Available at: http://www.acdivoca.org/852571DC00681414/ID/resources_worldreportfall06</p>	<p>Includes the following articles:</p> <ul style="list-style-type: none"> - Strengthening Value Chains to Promote Economic Opportunities - The Importance of Input Supply to Value Chain Performance - The Importance of Upgrading for Micro and Small Enterprises in the Competitive Value Chain - Working Within the Value Chain to Get Financial Services to Micro & Small Enterprises - Information & Communication Technology: Levelling the Playing Field Between Producers & Buyers in the Value Chain - The Intersection of Health, Industry & the Value Chain Methodology
<p>Altenburg, T. (2007). Donor approaches to supporting pro-poor value chains. Report prepared for the Donor Committee for Enterprise Development Working Group on Linkages and Value Chains. German Development Institute. 61 pp. http://www.fao-ilo.org/fileadmin/user_upload/fao_ilo/pdf/DonorApproachestoPro-PoorValueChains.pdf</p>	<p>A review of the literature and discussion of analytical</p>
<p>FIAS. (2007). Moving Towards Competitiveness: A Value Chain Approach. FIAS: The Foreign Investment Advisory Service, World Bank. http://www.ifc.org/ifcext/media.nsf/Content/FIAS_Value_Chain_Approach_Publication</p>	<p>This technical paper emphasizes how to use value chain analysis to develop policy recommendations. Offers value chain workers the tools for addressing key institutional constraints in the business environment that affect growth and competitiveness of firms in emerging economies.</p>
<p>Fiter, R. and Kaplinsky, R. (2001). Who gains from product rents as the coffee market becomes more differentiated? A value chain analysis. IDS Bulletin Paper. http://www.ids.ac.uk/ids/bookshop/bulletin/bull323abs.htm</p>	<p>Applies value-chain analysis to an agricultural commodity which is in the process of significant change in final product markets. It is hypothesised that similar trends can be observed in other agricultural-based value chains.</p>
<p>Fromma, I. and Dubónb, J.A. (2006). Upgrading and the Value Chain Analysis: The Case of Small-scale Coffee Farmers in Honduras. Conference on International Agricultural Research for Development. Tropentag 2006. Available at http://www.tropentag.de/2006/proceedings/index.html.</p>	<p>There is evidence that small producers and exporters in developing countries can insert themselves successfully in global scale agricultural value chains. The aim of this study was to analyze how small coffee farmers were integrating themselves in the value chain.</p>

<p>Gloy, B. (2005). A guide to understanding the value chain. Department of Applied Economics and Management, Cornell University, Ithaca, NY 14853. Smart Marketing, September 2005. 2 pp. http://www.fruit.cornell.edu/Berries/marketingpdf/valuechain.pdf</p>	<p>A short introduction to understanding the value-chain.</p>
<p>GTZ (2007). ValueLinks Manual. The Methodology of Value Chain Promotion. GTZ. http://www.value-links.de/manual/distributor.html</p>	<p>Includes modules on selecting a value chain for promotion, analyzing a value chain and determining the chain upgrading strategy as well as modules on implementing and monitoring value chain development programs.</p>
<p>Kaplinsky, R. and Morris, M. (2002). A Handbook for Value Chain Research. Institute of Development Studies. http://www.ids.ac.uk/ids/global/pdfs/VchNov01.pdf</p>	<p>Provides a detailed description for how to conduct Value Chain Analysis</p>
<p>KIT, Faida MaLi and IIRR. (2006). Chain empowerment: Supporting African farmers to develop markets. Royal Tropical Institute, Amsterdam; Faida Market Link, Arusha; and International Institute of Rural Reconstruction, Nairobi. http://www.mamud.com/Docs/chains.pdf</p>	<p>This manual brings together a broad range of experiences to secure market access for smallholder farmers and indigenous marginalized communities from different contexts throughout Africa.</p>
<p>Roduner, D. (2005). Value-Chains: What is behind this new key word? And what is the role of development agencies in value chain development in developing countries? Rural Development News 2/2005. 6 pp. http://www.agridea-international.ch/fileadmin/10_International/PDF/RDN/RDN_2005/value_chains_what.pdf</p>	<p>A short overview of existing value chain theories. Illustrates the first results of a broad international Community of Practice on Value Chains in Rural Development</p>
<p>Roduner, D. (2007). Donor Interventions in Value Chain Development. Working Paper, Swiss Agency for Development and Cooperation (SDC), Switzerland. http://www.deza.admin.ch/ressources/resource_en_162772.pdf</p>	<p>Guidelines highlight the most important issues that development agencies need to consider when they engage in value chain development in rural areas. Offers guiding principles for development practitioners and policy makers, and points to further useful material.</p>
<p>Schmitz, H. (2005). Value Chain Analysis for Policy Makers and Practitioners. International Labour Office. http://www.ilo.org/dyn/empent/docs/F204969253/VCA_book_final.pdf</p>	<p>A guide to Value Chain Analysis targeted specifically at policy-makers and planners at different levels of government, business associations and trade unions and others responsible for developing strategies for enterprise development and local economic development.</p>
<p>Shepherd, A.W. (2004). Financing Agricultural Marketing: the Asian experience. Marketing and Finance Service (AGSF), Agricultural Support Systems Division, FAO, Rome. http://www.fao.org/Ag/ags/subjects/en/agmarket/markfinance.html</p>	<p>Reports on a study of how traders of grains and horticultural produce in Asia finance their activities and how they use that finance.</p>

<p>Van den Berg, M., Boomsma, M., Cucco, I., Cuna, L., Jnassen, N., Moustier, P., Prota, L., Purcell, T., Smith, D. and Van Wijk, S. (). Making Value Chains Work Better for the Poor: A Toolbook for Practitioners of Value Chain Analysis. Working Group, Market Access for the Poor (SNV), Markets and Agriculture Linkages for Cities in Asia (CIRAD/VAAS/IPSARD). http://www.markets4poor.org/?name=publication&op=viewDetailNews&id=964</p>	<p>Focuses on Value Chain Analysis from a pro-poor perspective. Provides value chain practitioners with an easy to follow set of tools for value chain analysis, focused on poverty reduction.</p>
<p>Van Wagenberg, C.P.A., Schepers, H.E., and Wijnands, J.H.M. (2005). Integrated agro-socio-economic dynamic simulation model of the organic value chain. Adelaide, Australia : LEI Dier - Markt en Netwerken. 15th IFOAM organic world congress, 2005-09-20/2005-09-23. Available at: http://www.inra.fr/ciab/papers/vanWagenbergC.pdf</p>	<p>This paper describes a deterministic dynamic simulation model as a decision support tool for the analysis of the growth perspectives of the Dutch organic sector. The model combines agronomic, sociologic and economic insights of the organic value chain from farmer to consumer.</p>