

Access to markets:

Making value chains work for poor rural people



Enabling poor rural people
to overcome poverty

Strong links to markets for poor rural producers are essential to increasing agricultural production, generating economic growth in rural areas and reducing hunger and poverty. Improving these links creates a virtuous circle by boosting productivity, increasing incomes and strengthening food security. Better access by small producers to domestic and international markets means that they can reliably sell more produce at higher prices. This in turn encourages farmers to invest in their own businesses and increase the quantity, quality and diversity of the goods they produce.

There are many pieces to the puzzle, however. Safe storage facilities, all-weather roads and affordable transportation are basic needs. In addition to infrastructure there is information – knowing in real time about market prices and demand is vital for participation in modern value chains. Being an active member of an effective farmers' organization also brings many essential benefits.

Belonging to an organized group allows smallholder farmers to bulk produce, reduce costs through economies of scale and, perhaps most importantly, to



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strengthen their bargaining power with powerful private-sector actors. Membership can also bring access to financial, processing and business services, all of which are key to empowering farmers to deal with the private sector on a more level playing field.

Poor rural producers and their goods are connected to markets within larger agricultural value chains. Every product that is sold – locally, nationally or internationally – is part of a value chain. And every link of the chain has the potential to add value to the product. From a development perspective, value chains are one of the instruments through which market forces can be harnessed to benefit poor rural women and men – not just producers, but wage earners, service providers and others.

Studies confirm that producers often earn significantly less than other actors in the chain. Coffee growers in Uganda, for example, were earning just 0.5 per cent of the retail price to consumers in London.

For fresh vegetables grown in Africa for export to Europe, about 27 per cent of the final price went to the retailer, while producers earned just 12 per cent for mangetout peas grown in Zimbabwe, and 14 per cent for vegetables grown in Kenya.

Who controls the value chain?

To successfully intervene in a value chain to the benefit of poor rural producers, it is important to understand and take account of the distribution of power and control among the various actors. This means recognizing how much influence producers can have over the quantity, quality and prices within the chain. Different types of chain and different degrees of farmer organization provide different outcomes in terms of producer prices.

Intervening along the value chain often means enabling poor rural people to 'move up' the chain and capture margins previously caught by other players, including wholesalers, processors and exporters.

The difference between traditional and modern markets

IFAD's Strategic Framework and value chains

The IFAD Strategic Framework 2011-2015 includes the integration of poor rural people in value chains as a key focus. In line with the Strategic Framework, IFAD works with poor rural women and men to help them access value chains that offer opportunities for them as producers, non-farm entrepreneurs and wage workers. We support them in capturing a larger share of the value added along the chain. Our work in this area builds on IFAD's Private-Sector Strategy, which was approved by the IFAD Executive Board in December 2011.

Agricultural and food product markets have changed significantly over the past 30 years. Modern value chains serving national and regional markets – particularly in urban areas – have emerged rapidly in most developing countries. Traditional markets often continue to exist alongside the modern.

Although the distinction between modern and traditional chains is not always clear-cut, there are some notable differences between the two. As value chains become more modern, they become better organized and more highly integrated and coordinated. Relationships among participants tend to become more codified and institutionalized, and processors and retailers often use preferred suppliers and a limited number of specialized businesses. Quality standards are typically higher in these chains, requiring robust quality and safety infrastructure and enforcement mechanisms. Traceability along the chain is important.

Traditional supply chains, on the other hand, are less coordinated or less formally so, and there tend to be more players or 'links' in the chain. Patterns of transaction are more erratic, and the actors involved change frequently. The underlying quality and safety infrastructure is often weaker, and the types of products bought and sold frequently cater to the needs of poorer consumers – particularly in rural markets, but also in urban. Levels of product transformation and processing before marketing are often low, and traceability is not an issue.

Modern value chains can offer new opportunities for smallholders to play a part in fulfilling demand for higher value products, particularly in urban markets. However, there are typically higher initial costs and risks for them to engage in these markets. Traditional markets continue to provide an alternative for many small producers, and the two options are not mutually exclusive in many cases.

IFAD's work on value chains

The proportion of IFAD-supported projects that include work on value chains has increased dramatically over the past 12 years. In 1999, it was just 3 per cent of projects, while in 2009, it was 46 per cent and rising.

Experience has shown that work to reduce poverty through value chain development must have four objectives:

- raising prices at the farm gate
- building strong, inclusive farmers' organizations
- reaching out effectively to women and the poorest social groups
- lowering prices to the consumer by improving chain efficiency

IFAD's work to build market access

Spinning yarn for export in Central Asia

To gain a footing in international markets, small producers often need support to boost the quality and competitiveness of their goods. Poor rural families raising angora and *cashgora* goats in Tajikistan are improving their breeding stock and learning better ways to process fibres through an IFAD-supported programme managed by the International Center for Agricultural Research in the Dry Areas (ICARDA). The programme works at the household level, with both male and female goat owners, to increase goat productivity and improve fibre quality, and with women to spin finer quality fibres. Using the new technologies, rural women in Northern Tajikistan have more than doubled their incomes from fibre processing and are starting to sell to markets in Europe and the United States.

In Kyrgyzstan, IFAD and ICARDA are working with the Central Asian Crafts Support Association (CACSA), a local NGO, and the national agricultural research system to enable women's groups to produce luxury wool felt handicrafts for export.

A project website (www.adventureyarns.com) was set up in 2011 promoting the initiative and linking directly with wholesale buyers.

Private-sector investment boosts vegetable oil production in Uganda

Partnerships between the public sector and private companies can promote investment in value chains that benefit poor rural people. The largest public-private partnership in IFAD's portfolio is in Uganda, where BIDCO Oil Refineries Ltd and Wilmar have jointly invested US\$120 million to introduce oil palm production in the country and reduce dependency on imports. With IFAD's support, about 1,500 smallholder farmers will provide about one third of the oil palm production for the refinery. And about 3,000 new jobs in the factory and on the plantation have been created.

IFAD has also supported 150,000 farmers to increase sunflower production in the north. Competition on the national market has kept prices for vegetable oil products and soap affordable for poor consumers.



CONTACTS

Edward Heinemann
Senior Research Coordinator
Office of Strategy and
Knowledge Management
IFAD
Tel: +39 06 54592398
e.heinemann@ifad.org

Vineet Raswant
Senior Technical Adviser
Policy and Technical Advisory Division
IFAD
Tel: +39 06 54592224
v.raswant@ifad.org

LINKS

IFAD/ICARDA fibre-processing
initiative website

<http://www.adventureyarns.com/>

Enabling poor rural people to overcome
poverty in Uganda

[http://www.ifad.org/operations/projects/
regions/Pf/factsheets/uganda.pdf](http://www.ifad.org/operations/projects/regions/Pf/factsheets/uganda.pdf)

From desert to green fields in Egypt

[http://www.ifad.org/rpr2011/testimonials/
video/egypt.htm](http://www.ifad.org/rpr2011/testimonials/video/egypt.htm)

Smallholders tap new markets
in Guatemala

[http://www.ruralpovertyportal.org/web/
guest/country/voice/tags/guatemala/
guatemala_smallholders](http://www.ruralpovertyportal.org/web/guest/country/voice/tags/guatemala/guatemala_smallholders)

Rural Poverty Report 2011

[http://www.ifad.org/rpr2011/report/e/
rpr2011.pdf](http://www.ifad.org/rpr2011/report/e/rpr2011.pdf)

Making the desert fertile in Egypt

Resettled farmers and previously unemployed graduates in Egypt are growing and selling high-value crops to domestic and international markets on reclaimed desert. An IFAD-supported project in West Noubaria is helping farmers to 'move up' the value chain and capture higher prices for goods such as tomatoes, apricots, peaches, oranges and dairy products.

Moving up the value chain may simply mean selling directly to processors rather than wholesalers, or processing on the farm and selling the finished product. Smallholder farmers have been trained to sun-dry tomatoes, for example – a product that sells for US\$14 per kilogram, compared with US\$3 for fresh tomatoes.

Farmers in this now-fertile desert sell more than 6,000 tons of tomatoes a year to Heinz. Heinz provides seeds and guarantees to buy half the harvest at an agreed price. The farmers also supply oranges and mozzarella cheese to big hotels in Sharm-el-Sheikh and export peanuts to Germany.

Exports create jobs in Guatemala

With IFAD support, smallholder farmers in one of Guatemala's most isolated areas have built partnerships with the private sector and are now selling produce to some of the biggest retailers in the world, including Walmart. Incomes have risen by as much as 50 per cent. When IFAD started work in the war-torn area of El Quiché, people were living mainly off corn and beans, the few roads were full of potholes and irrigation was a luxury. Today, women and men farmers are harvesting and exporting cash crops like onions, radicchio and French beans. The farmers have earned more than US\$800,000 in gross revenues and about 250 new jobs have been created. Partnerships with private-sector actors such as the Guatemalan Exporters Association are key to their success.



IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries.

International Fund for Agricultural Development
Via Paolo di Dono 44, 00142 Rome, Italy
Tel: +39 06 54591
Fax: +39 06 5043463
E-mail: ifad@ifad.org
www.ifad.org, www.ruralpovertyportal.org

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