Do value chains help farmers

Many current global policies propose that farmers can get out of poverty by being (better) linked to markets. Government and NGO programmes thus often promote cheap agricultural input supplies, and support farmers to sell their products through "value chains". Value chains refer to all the steps that a product takes, from its point of origin (in this case, farm products) to the consumer. Many professionals think that improving conditions along the whole chain stimulates farmers to become more entrepreneurial and gain a better income.

Does an emphasis on value chain development indeed lead to farmers becoming more entrepreneurial? And is it the key to poverty reduction in rural areas? Here are two views on these questions, both referring to Ghana, West Africa.

Photo: Frank van Schoubroeck

"Developing value chains reduces poverty"

Victor Attuquaye Clottey, co-ordinator of the Network to Support Agricultural Intensification in sub-Saharan Africa.

"Agricultural value chain development is about linking farmers to people who can process, package, market and eventually buy the food they produce. In Ghana, the agriculture sector employs at least 55 percent of the working population, and most of them are small-scale farmers. This rises to above 75 percent in the rural areas. More than 35 percent of the country's gross domestic product (GDP) comes from agriculture. This pattern is not different from other economies in sub-Saharan Africa. Despite the enormous contribution of agriculture to national economies, the rural folk whose main livelihood activity is agriculture happen to be the most poverty-stricken in the developing world.

"Rural farmers have always taken opportunities to trade their products, to improve their ability to create wealth. However, how can farmers' inherent entrepreneurial capacities be enhanced even further? This is where value chain development as part of the overall development agenda has an answer.

"Markets have to be created by the farmers and agro-business people themselves and not by outsiders for them. Only then will they feel the pain and the gain from their transactions. This does not mean that the government should not provide the favourable environment for enterprises to thrive. After all, the state also gains and loses depending on the direction of the country's economic growth.

"Small-scale farmers, however, need coaching to play gainful roles in the agro-food industry. Coaching on chain development techniques is a sure way of empowering small-scale farmers to engage with suppliers and buyers of their produce, to develop a common strategy from which farmers and buyers both benefit. For example, pepper-growing communities in northern Ghana wanted to make the most of the market for peppers. They were already producing fresh peppers to bring in much-needed revenue at the start of the cropping season. However, they also needed extra income to get them through the long dry season. Farmers were thus supported to break into the high-value domestic and export market of dried pepper. The Savanna Agricultural Research Institute and its partners introduced farmers to appropriate varieties, drying technologies and linkages to markets. Today, pepper drying has

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out of poverty?

become a specialised enterprise in the communities, linking primary producers to assemblers who sort, grade and sell the dried pepper on both the domestic urban and export markets.

"But farmer empowerment through value chain development does not only come through promoting innovations in production and processing technologies. Improving the way a business is organised, managed and regulated is also necessary. Rural farmers can then shift from largely subsistence vocations to more business-like ones, integrating themselves into sustainable markets for their products.

"In rural northern Ghana, by setting up commodity-based value chains, farmers have steadily increased average income from pepper from US$ 199 in 2005 to US$ 482 per farm household in 2008. Income of soybean farmers increased from US$ 113 to US$ 434 while small ruminant farmers made a 15 percent increment to US$ 330 in 2007-2008. Households could change their roofs from thatch grass to aluminium sheets; acquire TV sets running on car batteries and family heads now own mobile phones. Similar outcomes can be found in Benin, Burkina Faso, Mali, Niger, Nigeria and Togo."

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"The poorest farmers do not automatically benefit"

Gertjan Becx, director of Resilience, a consultancy firm based in Wageningen, the Netherlands.

"Value chain development is an important concept for poverty reduction, as it implies a broad approach, embracing the complete agricultural system from planning to production to market. Programmes with an integrated value chain approach have a bigger chance of success than interventions based on production or marketing alone. However, increasing the efficiency of a value chain does not automatically result in benefits for poorer farmers. Smallholder farmers need support to become more entrepreneurial and enter agro-value chains to improve their abysmal economic conditions.

"We performed an analysis of rural livelihoods in distinct regions of Ghana, including some value chain analyses of main food crops. More than 1200 smallholder farmers were interviewed to understand the constraints they face when wanting to become more entrepreneurial. We define entrepreneurship as 'planned production for a defined market with a profit objective'.

"In our Ghanaian investigation we discovered four clusters of interconnected constraints that restrict entrepreneurial development of smallholder farmers. The first cluster includes constraints related to production and processing. Lack of capital, little access to (micro-) credit, poor soil or seed quality, lack of water, uncertainty about land entitlement, shortage of adequate labour, lack of traction, and lack of knowledge and technology, all hamper productivity increases. Moreover, because of chronic hunger, people are mentally and physically weak, so they cannot work to their full capacity.

"The second cluster contains the risks and uncertainties farmers face, like the erratic climate, lack of information, fluctuating markets, corruption, crime, and hostile institutions. Farmers feel highly vulnerable and see little chance of organising themselves, to be able to withstand the risks and achieve sufficient production for a value chain.

"The third cluster relates to the lack of incentives to invest. Often, rural agriculture is not profitable enough for farmers to invest in improvements. Farmers who do not own land have little incentive to invest in it. Moreover, farmers perceive that if they can make a profit, their extended family, patrons and the government (through tax) will claim most, if not all, of the fruits of their activities. Inadequate investment in rural infrastructure is also a serious constraint.

"The fourth cluster deals with the mindset of subsistence farmers. Culture and religion often restrict them from exploring new opportunities. Farmers are inclined to consume rather than to save and invest. Most importantly, subsistence farmers deeply mistrust their local, regional and national governments.

"We found that poor farmers have difficulties with long-term planning, markets and profit as many of them have developed 'coping strategies' in response to difficult circumstances. In a stable environment there is nothing wrong with coping strategies. However, in sub-Saharan Africa the environment is not stable: developments like population growth, soil depletion and climate change require farmers to keep adapting and investing in their farms.

"We concluded that agricultural entrepreneurship is necessary for small-scale farmers to escape the cycle of continuing poverty. But this will only be possible if they organise themselves into farmer-based organisations. Value chain development must take the constraints described above into consideration if they are to work for poorer farmers. Value chains can only overcome the cycle of poverty if they deliberately designed to improve farmer livelihoods, so to be 'pro poor'."

Gertjan Becx (gertjan.becx@gmail.com) wrote this contribution together with Hans Eenhoorn (j.w.eenhoorn@inter.nl.net), associate professor of Wageningen University. The research report "Constrain constraints!" discusses the factors limiting smallholders to become more entrepreneurial. For more details, see Sources, on page 40.

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