

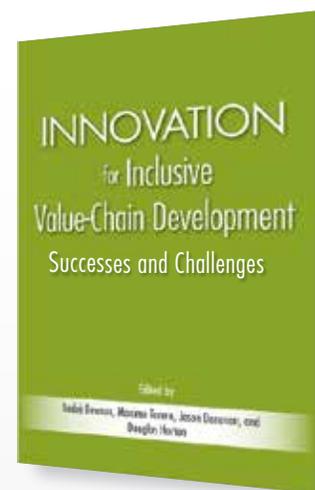


INNOVATION FOR INCLUSIVE VALUE-CHAIN DEVELOPMENT: SUCCESSSES AND CHALLENGES

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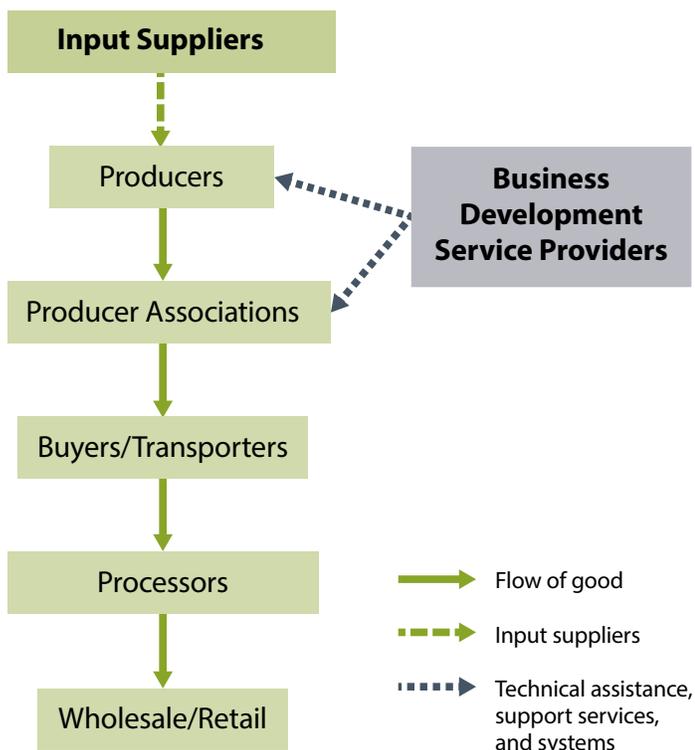
With roughly three-quarters of the world's poor living in rural areas, addressing global poverty requires paying attention to rural populations, especially smallholder farmers in developing countries. Millions of smallholders and others among the developing world's poor, including a large proportion of women, participate as producers, laborers, traders, processors, retailers, or consumers in agricultural value chains. A *value chain* refers to the set of interlinked agents that produce, transform, and market the products that consumers are prepared to purchase (see Figure 1 for an outline of a stylized value chain). Improving the performance of agricultural value chains has the potential to benefit large numbers of low-income and poor people. *Innovation for Inclusive Value-Chain Development: Successes and Challenges* assesses how to improve agricultural value chains, particularly value chains that include smallholders.



Value-chain development (VCD) describes a type of intervention that aims to address poverty through strengthened linkages among chain actors. Such strengthened linkages allow the actors to take advantage of market opportunities. When employed by development agencies, VCD often targets marginalized actors in a value chain, such as smallholders, small-scale businesses, and landless laborers—this is known as “inclusive” value-chain development. For smallholders, benefits may include increased income, more secure linkages to markets, and access to new services to aid production. For wholesalers, processors, and others involved in the later stages of an agricultural commodity's production, benefits may include improved

quality and flow of raw material and reduced transaction costs. Many development agencies, donors, and governments have adopted inclusive VCD as an essential element of their rural poverty-reduction strategies. Despite the proliferation of VCD over recent years, surprisingly little is known about whether VCD has lived up to its expectations, what trade-offs or undesired effects have been induced, and which combinations of VCD elements, under what conditions, have a higher likelihood to reduce poverty and deliver on overall development goals. *Innovation for Inclusive Value-Chain Development: Successes and Challenges* helps fill this gap.

FIGURE 1 Stylized value chain



Source: Authors.

EMERGING THEMES AND POLICY IMPLICATIONS

Drawing on research on agricultural innovation, rural livelihoods, value chains, and contract farming in different geographic, social, economic, and institutional contexts, *Innovation for Inclusive Value-Chain Development: Successes and Challenges* identifies several common themes related to VCD, some of which have policy implications:

Expanded Access to Agricultural Product Markets for Smallholders

Access to lucrative markets for agricultural products can benefit smallholders in developing countries. Smallholders can supply markets with a diverse set of food products, and they may have a comparative advantage in producing high-value, labor-intensive products, such as perishable fruits, vegetables, and specialty crops. Moreover, farmers in remote areas often have a deep knowledge of neglected and underutilized species, such as quinoa, amaranth, and

native potatoes in the Andes, for which lucrative new markets are emerging. Improvements in transportation are reducing marketing costs, and information technology is helping decrease the asymmetries in market information that have traditionally put rural smallholders at a disadvantage vis-à-vis large farmers and market agents.

Minimum Assets Required to Participate in VCD

Smallholders often find it difficult to exploit the opportunities presented by expanding markets because of their limited access to resources such as land, credit, technical advice, and current information on market prices and conditions. These limitations restrict smallholders' capacity to invest, expand their market surplus, and add value to their produce. Further, the limited market surpluses of individual smallholders raise the unit cost of assembling, handling, and transporting their products. Women are especially disadvantaged when it comes to access to land, labor, credit, and infrastructure. These common attributes of smallholders highlight the importance of policies and programs that strengthen farmer associations and collective marketing. Gender imbalances need to be identified and appropriate interventions or components designed to achieve gender inclusion.

Role of Farmers' Organizations and Contract Farming in Value-Chain Development

Current institutional arrangements within value chains often limit the ability of smallholders and small market agents to benefit from value-chain participation. For example, product quality is increasingly important for determining farmers' pay in high-value markets, and costly technology is needed to assess invisible quality attributes, such as nutrient content and pesticide residues. In this context, weak institutions for ensuring the fair measurement of product quality and for enforcing contracts can negatively impact smallholders. Institutional innovations such as farmer organizations and innovative contract-farming arrangements have played key roles in inclusive VCD.

Farmer organizations have aided in reducing transaction costs in input and product markets by improving product assembly and quality assurance and by organizing supplies of inputs, credit, and technical assistance. They have also aided in negotiating more favorable contract terms and conditions for smallholders. Contract farming has helped farmers overcome market failures by linking them with output markets for high-value foods and guaranteeing them a market for their produce. Also, when contractors provide inputs, credit, or technical advice, contract farming can help farmers to access technology and input markets. Benefits such as these can raise contract farmers' incomes.

Other institutions can play important roles. Where market institutions are weak, independent bodies for product-quality verification can improve contract enforcement, benefitting both buyers and sellers. Strengthening local institutional arrangements (for example, to enforce contracts and provide independent verification of product quality in contract-farming schemes) can contribute significantly to the development of agricultural markets and the benefits reaped by smallholders.

Role of Multistakeholder Platforms in Value-Chain Development

Another institutional innovation in VCD is the development of multistakeholder platforms—mechanisms or structures that allow individuals with different stakes in a common resource or process to interact, improve their mutual understanding, develop trust, and engage in joint activities. Many of the interventions examined in *Innovation for Inclusive Value-Chain Development: Successes and Challenges* have involved multistakeholder platforms. Some platforms have been primarily concerned with fostering market innovation, others with improving market-chain governance and coordination.

Effective facilitation, which involves forming networks, coordinating interactions, mediating disputes, and documenting results, is crucial for the success of multistakeholder platforms. Many NGOs have developed their capacities for effective facilitation. By contrast, these skills are scarcer in publicly funded agricultural research institutes, highlighting the need for investments in capacity development, if agricultural research organizations are expected to facilitate the work of platforms.

Because socioeconomic, institutional, ecological, and technical conditions vary over time and space, interventions to promote inclusive VCD and multistakeholder platforms need to be tailored to fit specific local conditions and need to be flexible enough to evolve in response to changing conditions. Platforms need to be flexibly managed and adapt to unfolding events. Mechanisms for platform funding, planning, management, and governance need to allow for continual adaptation to emerging challenges and opportunities. For this reason, organizational reforms may be needed for some publicly funded agricultural research organizations to be able to play more effective roles in promoting innovation and inclusive value-chain development.

Attributes of Successful Interventions

A successful VCD intervention is one that generates significant and potentially lasting benefits for the rural poor at scale. Identifying characteristics of such successful

interventions is difficult because few rigorous evaluations have been done. Moreover, no single recipe for inclusive VCD exists: interventions need to be tailored to fit the opportunities and constraints of particular places and targeted to reach specific groups. Considering these limitations, certain generalizations (which we hope will be tested in future applied research and evaluation studies) can be made. A few of these generalizations are as follows:

- ▶ Until recently, interventions have tended to focus either on agricultural research and farm-level innovation or on VCD. Such comparatively narrow interventions have had limited benefits for the poor. In contrast, interventions that combine agricultural innovation and VCD usually have had synergistic effects.
- ▶ The main benefits of VCD for the poorest rural groups—those with very small parcels or no land at all—come from expanded employment in production, processing, and marketing activities and in reduced prices of agricultural products.
- ▶ Effective participation in VCD requires a minimum set of assets—land and financial capital, knowledge, skills, social capital, and access to sources of technical support—which the poorest of the poor lack. So, while successful interventions broaden participation in VCD, benefitting the poor, they should not be expected to produce significant direct benefits for the poorest of the poor.
- ▶ Multistakeholder platforms that fostered commercial, technical, and institutional innovation have had more significant and lasting impacts than those focused on value-chain governance issues.
- ▶ Time is essential for results to emerge. Interventions that have generated significant benefits have generally been carried out over a decade or more, with support from international donors and the stable organizational environments provided by CGIAR centers. Follow-up studies show that the benefits of VCD interventions often continue to emerge, through successive waves of innovation and change, years after the interventions end.
- ▶ A major obstacle to giving interventions the time they need is donor demands for rapid results. CGIAR, national, and regional research programs have been under increasing pressure from donors to produce quicker results with more limited resources. Donors that wish to generate significant returns on investments in inclusive VCD should understand that

external support is likely needed for a number of years—probably at least a decade.

PRIORITIES FOR FUTURE RESEARCH

This work's findings can guide policy makers, development specialists, and others seeking to help the developing world's poor through VCD. The findings also suggest five crucial areas for future research:

Identifying the asset endowments of market-chain actors and taking these endowments into account in VCD. The asset endowments of smallholders and other market-chain actors influence their ability to participate in and benefit from VCD interventions. Practical methods are needed for applying asset-based approaches to VCD, in particular, for determining the “value-chain readiness” of potential participants and capturing gender differences along the value chain.

Comparative assessments of multistakeholder platforms. Comparative assessments of experiences with different types of platform, management systems, and facilitation arrangements are needed to clarify how such things as member diversity, the formality of management structures and systems, and different facilitation arrangements influence platform performance in different contexts.

Evaluating, with different models, VCD interventions. Evaluation is vital to support adaptive management of interventions; to provide information on cost-effectiveness and thereby improve accountability for resource use; and to determine the effectiveness

of inclusive VCD interventions relative to alternative approaches for aiding the rural poor. Complex interventions such as inclusive VCD present evaluators with numerous challenges, however. It is also important to reduce the cost of evaluations and identify practical methods for assessing changes along the entire value chain and to guide efforts to scale up promising pilot schemes.

Best practices for scaling up successful VCD interventions. Most documented experiences of interventions that integrate innovation-system and VCD approaches have been at the level of pilot projects. Many questions remain concerning (a) the feasibility of expanding and extending these pilot projects to achieve greater impact and (b) how best to scale up successful promising approaches while taking into consideration the heterogeneity of conditions in which VCD takes place.

How VCD interventions affect women and men differently. Women participate in many activities along value chains, and VCD initiatives may have differential impacts on women and men. More applied research and systematic evaluation is needed to guide donors, practitioners, and researchers in designing and implementing intervention strategies that benefit women who participate in value chains. Some documented experiences can offer models for mainstreaming gender in agricultural innovation processes and value-chain development processes. Also, improving the returns to women from VCD may provide guidance on how to better incorporate youth, ethnic minorities, and other underrepresented groups into VCD.

Research in all these areas can contribute further to improving VCD and the well-being of smallholders and other poor value-chain actors.

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