

RURAL DEVELOPMENT through DECENT WORK

FOR GROWTH, PRODUCTIVE JOBS, INCOME, FOOD SECURITY, GOOD WORKING CONDITIONS, EQUAL OPPORTUNITIES, RIGHTS, VOICE, SUSTAINABLE DEVELOPMENT, CRISIS RESILIENCE



International Labour Office

Themes

Rural Policy Briefs

Value Chains for Rural Development

Rural producers are the starting point of most value chains. Helping them capture market opportunities, obtain fair deals, and produce higher-quality products improves value chain performance while increasing rural incomes and employment and harnessing economic growth for rural areas.

Why action is needed

- Closer business links between farmers, agro-processors, exporters, traders and retailers provide significant potential for improved and increased employment and economic returns for rural producers.
- Rural areas have valuable agricultural and human resources that remain untapped. Improving value chains and addressing bottlenecks can unleash economic potential and generate employment.
- Micro, small and medium enterprise (M/SMEs) supply value chains and are major source of employment and income, particularly in rural areas of developing countries. Integrating rural M/SMEs in value chains can help increase their economic performance, boost employment creation and improve working conditions.
- Small farmer/producer-focused value chains can help rural populations to transition out of subsistence farming and reap the more lucrative gains and income opportunities that well-functioning value chains offer.
- Small producers face multiple obstacles in entering local value chains, from high transaction costs, to insufficient access to financial and other assets such as storage facilities and infrastructure, increasingly demanding consumer and health standards, and traceability requirements.
- Limited access to financial and business services make it difficult for small rural enterprises to become suppliers to larger firms, compete in global value chains, and enter higher-value markets.



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Facts and figures

- Many everyday products, from foodstuffs, to cosmetics, medicines, clothing, and furniture can be traced back through value chains to rural areas, where they are first produced or harvested.
- Value chains can be local, national or global, linking rural producers with traders and consumers worldwide. They can, for instance, link rural areas with big retailers or supermarket chains in major cities as well as export markets.
- Large multinationals use rural enterprises as suppliers or as part of their marketing and distribution network. This includes larger-scale producers, smallholders, input suppliers, traders, processors, transporters, wholesalers, etc.
- Power relations in value chains play a crucial role. Markets dominated by very powerful players can be detrimental to small producers and decrease the income they receive for their produce.¹
- The improvement of value chain competitiveness is recognized as a powerful approach for generating growth and reducing poverty in developing countries, where 75 percent of the population live in rural areas.²
- An alarming 30 percent of agricultural produce in rural areas is wasted because of constraints in weak rural value chains. Problems include the lack of adequate storage and processing facilities, communication networks, marketing and infrastructure.³
- Value adding off-farm activities in rural areas, such as processing and packaging, increase the worth of a product and can increase the economic gains for rural producers.
- Industries and services linked to agricultural value chains often account for over 30 percent of GDP in developing countries.⁴
- Global market trends and niche value chains in, for instance, organic agriculture and fair trade, can offer additional opportunities to rural producers.⁵
- Women often face disadvantages in terms of mobility, access to inputs, productive resources, and market information and are thus particularly challenged to access and maintain profitable market niches and economic gains in value chains.⁶



- Transactions costs in rural areas are high due to such factors as a non-conducive business environment, low population density, long distances and inadequate infrastructure, which reduce the profit margins of rural enterprises.
- Small farmers and other rural entrepreneurs often lack information on prices, value chains, competitors and consumer preferences.
- Relations between actors in value chains can be greatly asymmetric, leading for example to considerable dependence of small producers on intermediaries and traders.
- Competition is weak or non-existent in rural areas of developing countries, and it generally protects consumers, not producers, from buyers' abuses and dominant position.
- Corporate concentration sometimes results in only one or a few large buyers operating in rural areas, creating a situation where buyers have command over prices and other delivery modalities, which typically exerts downward pressure on the price of the rural product, as well as the incomes, profits, and working conditions of rural producers and workers.
- High value added activities and decision making power in value chains tend to occur outside rural areas.
- Small enterprises in rural areas often do not achieve economies of scale and scope; they have insufficient bargaining power due to their size and lack of organization in cooperatives or other producer organizations.
- Producer organizations or cooperatives can link farmers directly with retailers, exporters, traders and agribusinesses.



Box 1

What is a value chain?

A value chain “describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production [...], delivery to final consumers, and final disposal after use.” This includes design, production, marketing, distribution and support services leading up to consumption (and often beyond, when recycling processes are considered). These activities can be contained within a single firm or divided among different firms, as well as within a single geographical location or spread over wider areas.

The term ‘value chain’ refers to the fact that value is added to preliminary products through combination with other resources (for example tools, manpower, knowledge and skills, other raw materials or preliminary products). As the product passes through the stages of the value chain, its value increases.

Source: ILO: *Value Chain Development for Decent Work: A Guide for Practitioners, Government and Private Sector Initiatives* (Geneva: 2009)

Policy options

When promoting value chains it is crucial to look at the market system that the value chain is embedded in. Thorough market system and value chain analyses are prerequisites for successful interventions. Once the underlying constraints of the value chain have been identified, policies could include the following:

Promote business and financial services

- Improve financial services in rural areas. For instance, build on existing relationships in the value chain; provide finance or increase the capacity of financial institutions to serve small-scale producers in rural and remote areas by linking informal providers to formal financial institutions.
- Improve small farmers’ entrepreneurship skills by facilitating their access to technical training in business management and finance skills.
- Extend Business Development Services (BDS) to rural enterprises and adapt these services to rural-specific needs by working with existing service providers.
- Make agricultural business services more accessible through outreach programmes to rural areas that enable first-time entrepreneurs to conquer the entry barriers in value chains.
- Encourage cooperation among different actors in the value chain and consider combining financial and non-financial services, such as training with credit.

Empower rural entrepreneurs

- Facilitate investment in training, technology and management systems by chain actors to improve the ability of farmers’ and other rural producers to create a better quality product.
- Develop training programs in collaboration with chain actors like BDS providers that help farmers meet the standards of the specialty market through improved growing and processing techniques.
- Facilitate the creation of support structures that enable enterprises and poor rural producers to access information about market requirements, product standards, knowledge on innovative technologies and new production methods.

- Support technological development and innovations to improve productivity. Working with mobile phone service providers, for instance, can help rural entrepreneurs to better access market information and capture buying and selling opportunities.
- Support the establishment of farmer groups, producer organizations or cooperatives that help increase the bargaining power of rural smallholders.
- Promote partnerships among small enterprises and producers that are too small to act alone to meet the quantity and quality requirements set by large firms. Large companies may be more interested in partnering with cooperatives instead of individual enterprises to get better quality goods and higher volumes.
- Ensure that economic gains in value chains are fairly distributed among various actors, including rural producers.
- Ensure gender equality throughout the chain and prioritize women in education, training and credit support.

Provide an enabling business environment

- Encourage institutions that facilitate administrative policies, regulations, standards and laws so rural enterprises can establish reliable and transparent value chains.
- Improve infrastructure in rural areas so transport and intermediation costs are reduced.
- Advocate trade laws that encourage and allow developing countries to develop their manufacturing capabilities and participate at the higher-value added sections of the value chain. Work to eliminate trade barriers and improve market access in developed country markets for manufactured goods.

Strengthen value chains

- Facilitate collaboration among value chain actors in order to meet market requirements and standards.
- Partner with cooperatives to disseminate information regarding standards, product quality, and consumer preferences.
- Work with farmer associations to identify and understand commodity value chains and market access opportunities and challenges.
- Promote dialogue between actors and supporters. Find out how stakeholders communicate with each other and improve communication along the value chain.
- Take an inclusive approach to value chain development and note inequalities within chains.

Box 2

The Light Touch Approach to VCD

In a “light touch” approach, a project implementer takes the role of a facilitator. Financial aid is limited and instead of intervening and delivering directly, a project facilitator helps develop the capacity of the partner to make a change. The project provides mainly technical support, coordination and networking as well as information. The approach aims to strengthen ownership and capacity thus making problem solving sustainable, used for instance in the Enter-Growth project in Sri Lanka (See Box 3).

See: www.entergrowth.com



- Develop a regulatory environment for public and private sourcing relationships so profit margins are distributed fairly among different actors in the value chain.
- Enhance value chain transparency, which will help identify bottlenecks and improve the efficiency and profitability of value chains.
- Strengthen communication along the value chain to raise awareness about international labour standards along the whole value chain using transparency and social dialogue, among others.

Box 3

Enterprise for Pro-poor Growth (Enter-Growth)

This ILO project in Sri Lanka (2005-2008) financed by Sweden, aimed at improving market access for micro and small enterprises (MSEs) involved in floriculture. It worked to create a more conducive regulatory and legal environment for MSEs while improving attitudes towards business and entrepreneurship among rural populations. Enter-Growth had a facilitating role promoting dialogue and consultation among different stakeholders up and down the value chain, so that they may jointly implement solutions for identified problems. The project had successfully worked with 16,400 business by 2009 and it was estimated that 52,000 businesses have since then been influenced by the project.

Source: *The Enter-Growth Project – Sri Lanka, Applying a Market Development Lens to an ILO Local Enterprise Development Project*. Available at: www.entergrowth.com

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ILO's role

- Focusing on value chains that offer opportunities for job creation and improved job quality
- Supporting value chain development through:
 - ◆ Tripartism and social dialogue to engage all stake holders in the value chain, from production to consumption.
 - ◆ Capacity building of public and private institutions, making them relevant players for value chain upgrading;
 - ◆ Training of government institutions, business service providers, financial institutions, business associations;
 - ◆ Developing training materials on value chain development and training facilitators;

- ◆ Value chain analysis to grasp the functioning potential and challenges of value chains and identify and to address employment-related issues. This is undertaken in collaboration with the World Bank, UNDP, and academic institutions.
- ◆ The Summer Academy on Sustainable Enterprise development: www.itcilo.org/enterpriseacademy
- ◆ A distance learning course: Enterprise development through value chains and business services markets: www.itcilo.org/marketdev (English and Spanish)
- Making available a variety of ILO tools that can address specific constraints, such as:
 - ◆ Start and Improve your Business (SIYB)
 - ◆ Sustaining Competitive and responsible Enterprises (SCORE) training on workplace practice improvement
 - ◆ Making Microfinance Work, Training for the Management of Cooperatives (My.COOP)
 - ◆ Gender Sensitive Value Chain Development
 - ◆ Business Environment interventions, Business Association capacity building, etc.

¹De Schutter, Olivier: *Addressing Concentration in Food Supply Chains: The Role of Competition Law in Tackling the Abuse of Buyer Power*, Briefing Note 03 (2010)

²ILO: *Promotion of Rural Employment for Poverty Reduction*, Report IV, International Labour Conference, 97th Session (Geneva: 2008)

³FAO: *Global Losses and Food Waste: Extend Causes and Prevention* (Swedish Institute for Food and Biotechnology: Rome: 2011)

⁴World Bank: *World Development Indicators 2008*, Available at: <http://data.worldbank.org/indicator>

⁵Waller, H. and Klicher, L. (Eds.): *The World of Organic Agriculture. Statistics and Emerging Trends* (Geneva: 2009)

⁶IFAD: *Value Chains, Linking Producers to the Markets* (Rome: 2010)

Links

- 📄 Job Creation and Small Enterprise Development Department <http://www.ilo.org/valuechains>
- 📄 Training Courses on Value Chain Development and Business Training <http://marketdev.itcilo.org/>
- 📄 IFC/ILO: BetterWork programme: <http://www.betterwork.org>
- 📄 Value Chain Finance: <http://www.itcilo.org/synergies>
- 📄 The Donor Committee Website: (<http://www.enterprise-development.org>) (<http://www.value-chains.org>)

Tools

- ◆ ILO: *Value Chain Development for Decent Work: A Guide for Development Practitioners, Governments and Private Sector Initiatives* (Geneva: 2009) http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/docum ents/instructionalmaterial/wcms_115490.pdf
- ◆ ILO: *Making the Strongest Links: A Practical Guide to Mainstreaming Gender Analysis in Value Chain Development* (Geneva: 2009) http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/docum ents/instructionalmaterial/wcms_106538.pdf
- ◆ ITC/ILO: *Enterprise Development through Value Chains and Business Service Markets: A Market Development Approach to Pro Poor Growth* (Turin: 2007) <http://marketdev.itcilo.org/>

- ◆ ILO: *An Operational Guide to Local Value Chain Development* (Colombo, Sri Lanka: 2007) http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/docum ents/instructionalmaterial/wcms_101319.pdf

Other Materials

- ◆ IFC/ILO: Better Work Programme <http://www.betterwork.org>
- ◆ ILO: Value Chain Finance www.itcilo.org/synergies
- ◆ DCED: The Donor Committee for Enterprise Development <http://www.enterprise-development.org>

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