



Making the Connection: Value Chains for Transforming Smallholder Agriculture

An International Conference

**Concept note
April 2012**

Background

The ways in which developing country agricultural production reaches consumers are changing. Responding to growing incomes, demand for new products, and to innovations in processing, communication and other technologies, chains are rapidly becoming more efficient. But it is not only the technologies that are changing. The relationships between farmers and companies and the way they work together to achieve that efficiency are also changing. Supply chains are being replaced by “value chains” as those in the chain begin to coordinate and collaborate to extract maximum value from their activities. Gradually, the traditional buyer-seller relationship of *ad hoc* transactions all the way along a chain is being replaced by relationships through which the farmer produces to the buyer’s specifications and the buyer, whether a trading company or processor, is similarly coordinating with its customers. Not only do such relationships facilitate the movement of products to consumers, but they also facilitate continual improvements in the chain, something that is impossible with *ad hoc* transactions. It is also important to note that such sophisticated chains are increasingly being used in domestic markets and are no longer limited to export sales.

The growth of such chains does, however, have considerable implications for smallholders and for rural development. Many farmers lack the land and other resources to play a successful role in value chains, which require the ability to supply products on a “when required” basis, not just when the farmer has surplus for sale. There is thus the possibility that smaller farmers could lose out as chains become more sophisticated. Offsetting this is the opportunity for increased rural employment, either through investment by those in the chains or by service providers. By reducing some of the market risks and enhancing farmer incomes, value chains can attract businesses such as input suppliers, machinery hire services and banks, as well as others seeking to profit from greater rural affluence.

The value chain concept has been widely used by the private sector for some time. More recently, it has been adopted by those working in agricultural development, in part because of the recognition of the potential impact of such chains on rural development. Many aid organisations now use it to guide their interventions, both for upgrading existing chains and promoting innovation and as a tool to identify market access opportunities for small farmers. The approach has been found valuable by donors, in that it has resulted in a consideration of all those factors impacting on the ability of producers to access markets profitably, thus leading to a broader range of chain interventions.

In the process of developing value chain work some confusion has been caused by the various definitions of the concept that are used. Some apply the term in a fairly broad way, such as when referring to an international, regional or national commodity market or marketing system. Others see it as being a tightly coordinated and collaborative chain in which producers are clearly responding to consumers’

demands, as described above. However, all organizations working in this field do emphasise that interventions have to be demand-led and that the private sector is central to all value chains.

Multinational companies are increasingly recognizing the need to work more closely with the communities from where they procure raw materials. Emphasis is now moving beyond Corporate Social Responsibility (CSR) initiatives, with their limited capacity to scale up, towards “creating shared value” in partnership with local communities. Such companies also now believe that there is a compelling business case for addressing sustainability issues within the value chain context.

Less well-known is the value chain upgrading work undertaken by smaller national companies, independent of donor or civil society support. This could relate, for example, to activities to strengthen linkages with farmers, promote product innovation or process improvement, improve logistics, or develop new markets.

An important aspect of the Conference will therefore be to identify successful initiatives and to ensure that participants are informed of these. But learning does not just come from a study of successes. Failures, and the reasons for them, provide lessons that are just as important, and it will be vital that all participants are prepared to share both their successes and their failures.

There has been a limited number of multi-donor initiatives to date that have focused on value chain development approaches. These have included:

- the “Working Group on Linkages and Value Chains”, which was formed in 2006 under the auspices of the Donor Committee for Enterprise Development (DCED).
- a narrower UN Value Chains Development Group, linking UNDP, UNIDO, FAO, ILO, IFAD, UNCTAD and ITC. This Group recently produced a report on the value chains work of the seven agencies.
- an Expert Group Meeting, which was hosted by UNIDO in September 2009 to validate and provide inputs for a UNIDO value chain methodology.
- an Expert Group Meeting, which was hosted by UNECA in January 2011, on regional strategic food and agricultural commodity value chains for Africa.
- the launch in 2010 by NEPAD/CAADP Pillar II, in collaboration with GIZ, of a series of capacity building/training activities on value chain approaches.
- the WUR-CDI workshop, “From Islands of Success to Seas of Change”, held in the Netherlands in April 2012 to explore the question: “*What works when scaling inclusive agri-food markets?*”
- a series of regional workshops on value chain finance organized by FAO in collaboration with other development agencies and civil society organizations.
- a Community of Practice, implemented by SDC-Switzerland between 2004 and 2007, discussed the topic of value chains.

To date, however, there has been no event that has attempted to bring together the private sector, the donor community, governments, civil society and others to fully explore the issues related to value chain development and to share experiences.

The Proposed Conference

Objective

The Conference is intended to bring together private sector representatives, government officials, donors, civil society, farmer organisations and academics to share experiences on value chain development and to discuss how best smallholders can be incorporated into value chains in order to promote agricultural and rural development in a way that transforms the role of the smallholder into that of an entrepreneur. The Conference will aim to identify the conditions necessary to create a broader and more solid knowledge base for the promotion of sustainable value chains, including training and information-sharing needs.

The aim is that participants will “connect” with each other. The Conference should also enable participants to make the connection between the work currently being carried out on value chains and their own particular circumstances. It will offer a learning opportunity to representatives of private companies and farmer-owned businesses on the innovations of others and the way other value chain actors have addressed problems. All stakeholders will be invited to share ideas, knowledge, new approaches and best practices in order to both strengthen the efficiency and profitability of existing commercial value chains and assist those working to promote value chain development in order to strengthen economic growth in smallholder communities.

Expected outcomes

It is hoped that the outcomes will include:

1. Greater awareness of all participants of recent developments by the private sector, donors, governments and civil society to enhance the efficiency of commercial value chains.
2. A shared understanding of the role of value chains in promoting sustainable and inclusive agricultural and rural development and of the potential for existing interventions to be scaled up.
3. Greater understanding of the factors necessary for value chains to thrive, such as finance and investment, ICTs, and farmer-buyer linkages, with particular, but not exclusive, reference to small and medium enterprises.
4. Greater understanding of the importance of the enabling environment for successful value chain development and of the potential for Public-Private Partnerships and multi-stakeholder approaches.
5. Agreement on steps to be taken to develop skills in developing countries in value chain analysis and support.
6. Agreement on steps to be taken to further promote knowledge sharing and the exchange of experiences on value chain development.

Geographical coverage

Although CTA is taking the lead in organizing this Conference, and CTA's remit covers only African, Caribbean and Pacific countries, it is proposed that the Conference encourages resource people and participants from all developing countries.

Participants

It is envisaged that participants will include representatives of:

- National and global retailers, food service companies, processors, traders, exporters and other intermediaries, as well as service providers and companies involved in contract farming and related market-linkage arrangements
- Private sector value chain or multi-stakeholder associations
- Bilateral, international and civil society organizations actively involved in value chain work
- Farmer organizations, including cooperatives
- Policymakers and parliamentarians
- CTA partner organizations in ACP countries and other agricultural development organizations from other regions
- Ministry of Agriculture agribusiness, policy or extension units
- Financial institutions
- Academics
- Media

Location and dates

The United Nations Economic Commission for Africa has agreed to host the Conference within its facilities in Addis Ababa, Ethiopia, from 6-9 November, 2012.

Conference topics

The Conference will address a number of topics. These include:

- **Trends impacting on value chain development.** As urban areas expand, the middle class grows, people develop new tastes and busy families seek foods that are ready-prepared or easier to prepare, there are considerable opportunities for value chain development, both in domestic and export markets. How should existing chains adjust to these trends and how can new chains develop? Offsetting these opportunities, however, are many potential problems. Will some agricultural value chains prove unsustainable in terms of production, processing or distribution? What will be the impact of climate change in terms of the need for both mitigation and adaptation? What are likely long-term trends with certification and could these trends spell the end of small farmers? The Conference will therefore seek to provide guidance to companies on how they should be planning for the future and to governments on how they can facilitate necessary adaptations by value chains.
- **Value chain innovation.** There have been many innovations introduced by the private sector to meet market demand and increase competitiveness, whether in terms of developing new products or processes or improving logistics. Donors and technical assistance agencies have also successfully introduced innovations to strengthen the operation of value chains. The Conference organizers will aim to identify success stories and give the chain innovators the opportunity to share their experiences. The use of ICTs will also be addressed.
- **Enabling environments.** Value chains cannot be upgraded in isolation. The success of “vertical” chains depends as much on external or “horizontal” impacts as on the internal efficiency of the chain itself. Chain upgrading is unlikely to be successful in a context that is not conducive to the “Ease of

Doing Business”, i.e. where macro-economic and other policies, rules and regulations, international trading agreements, etc. and their implementation are unsupportive and the financial and general business environment is inappropriate. The Conference would address how to improve enabling environments with particular reference to the needs of agribusiness and would consider ways in which value chain actors could work together to promote improvements.

- **Sustainability and scaling up.** In the field of agricultural value chain development the concept of “sustainability” tends to be used in two ways. On the one hand is the issue of the “greening” of chains to promote environmental and resource sustainability. How can production be sustained in a world of finite natural and land resources, declining water availability, etc? How can agricultural and livestock production be carbon neutral? How can waste and resource-use in the entire value chain be reduced? There is also the question of economic sustainability. What are the factors necessary to ensure that commercial investments have long-term profitability? How can donor-supported interventions continue to be profitable long after the donors have left? Related to both of these uses of sustainability is the whole question of scaling up. Developments by commercial companies may be environmentally sustainable when working with 200 farmers but not with 20,000. Value chain upgrading by donors may work as a result of intensive support to a few hundred farmers but the same level of success may not be achieved for many more farmers when no donor support is available. The Conference will consider these issues and will particularly discuss ways in which the private sector and donors can work in partnership to ensure sustainable scaling up.
- **Capacity development.** What new knowledge, skills, and infrastructure are needed in order that chain participants, government officials, civil society, etc. can best make use of value chain tools and approaches? Can existing tools and methodologies be simplified for cost-efficient use outside of the context of donor interventions? Do generic tools have to be adapted to national or regional circumstances? Are existing training materials and other capacity development activities that cover different value chain stages (e.g. production, harvesting, post-harvest handling, marketing, agro-processing, contract farming, certification) adequate and, if not, how can gaps be addressed? Are existing arrangements for sharing information on value chain activities adequate and, if not, what steps should be taken to promote information exchange?

(n.b. a detailed description of each proposed conference session will be prepared in due course)

Agenda

The final agenda is presently the subject of considerable discussion with partners. It is envisaged that the sessions will have a flexible format. Options open to partners for organising sessions could include: formal and moderated presentations; roundtable or panel discussion; presentations chosen after a “call for papers”; short video presentations; and working group discussions. Particular attention will be paid to ensuring high-quality chairs or moderators for all sessions.

Exhibition space

This will permit companies and development organizations to demonstrate their various approaches and methodologies, as well as training and other materials targeted at different stages of the value chain.

Pre-conference activities

- Establishment of a Steering Committee
- Preliminary meeting (including a Steering Committee meeting), hosted by CTA on 13-14 March 2012, brought together partners to discuss the agenda and organisation of the Conference
- Revision/finalization of this Concept Note and of an agenda
- Allocation of responsibility for workshop sessions and arrangements for management of those sessions (e.g. technical committees)
- Identification of case studies and speakers
- CTA has commissioned two studies: (i) a comparative analysis of the range of value chain development tool kits and methodologies that are currently available and in use (in collaboration with ICRAF); (ii) a survey of innovative approaches to chain development in ACP countries (in collaboration with FAO)
- A electronic discussion on the various topics to be discussed by the Conference
- Development of a Communication, Media and Marketing Strategy
- A special issue of CTA's magazine, *Spore*, will address the subject of value chains and will be published prior to the Conference.
- A dedicated website for the conference
- CTA plans to organise two competitions: one, targeted at journalists, would reward the best published articles on the topic of value chains while the other would be a reward for value chain innovation. Final details have yet to be worked out and suggestions are welcome.