# Empowering rural entrepreneurs

**Global value chains offer many opportunities for rural entrepreneurs in developing countries to become competitive actors in world markets. But unless local power relations are taken into account, value chain development is unlikely to reduce poverty.**

Proponents of globalization have long argued that free trade will lead to economic growth for all. However, since it is evident that gains from globalization are not distributed equally, NGOs and policy makers are promoting the development of global value chains that include small farmers and entrepreneurs, as a way to lift millions out of poverty. But are they taking into account all the factors that determine who benefits and who remains excluded from value chains?

Since the late 1990s, researchers have used global value chain (GVC) analysis to describe various agricultural commodity chains, including cocoa, coffee, cotton and tobacco. Development agencies and policy makers have also adopted GVC analysis to assist them in drafting agricultural development strategies. Such research has provided insights into opportunities for the poor to benefit from globalization. But the findings of some recent GVC analyses are alarming. Tilman Altenburg of the German Development Institute in Bonn, for example, believes that 'value chains become more exclusive as small-scale producers fail to meet [the] rising scale and standard requirements' imposed by those who control the chains. Many researchers concerned with the exclusion of small entrepreneurs agree.

In the cocoa sector, for instance, it is expected that only a few larger or more innovative farmers will be able to continue producing cocoa for the world market in the future. Smaller, non-competitive producers will be forced to seek alternative sources of income. This trend is reinforcing inequalities and threatening pro-poor development. To counteract this, and to ensure that rural entrepreneurs can grasp opportunities for upgrading, insights are required into the distribution of power, both within the value chain and locally.

## Chain governance

The issue of the governance of value chains is crucial. Authority and power relations among buyers, processors and producers determine how incomes are distributed, as well as the conditions under which small producers are included in the global division of labour. These power relations determine whether value chains will have an impact in terms of poverty reduction.

Value chains are part of larger institutional frameworks. They receive external inputs in the form of knowledge and they are influenced by advocacy groups (trade unions, NGOs), and by the policy priorities of national governments or international bodies such as the World Trade Organization. They are also affected by social structures such as the level of organization of producers, or traditional hierarchical relations. These institutional frameworks either provide effective channels through which value chains can be 'upgraded', or they create barriers that can block exchanges between actors in the chain.

Agricultural value chains are increasingly driven by multinational traders and food processors. They now

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### From complete goods to inputs

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Although trade has evolved in the last two decades, shifting from complete goods to intermediary inputs, our understanding of its dynamics has failed to keep pace. As a result, the policy options conferred to developing countries that wish to industrialize in such a context appear disjointed. Trade theorists still believe that the fact that some parts of manufacturing processes can now be done by small, specialized firms – the 'slicing of the value chain', as Paul Krugman put it – is promising for developing countries. It would enable them to develop a comparative advantage in an area where they might not have had one before.

While appealing, this line of thinking disregards the firm and its implications in a setting where the hierarchal power within global value chains limits the assumed efficiency of transactions between buyers and sellers. This cancels out two benefits for developing countries: economies of scope and technological upgrading. Thus, the trade in specialized goods presents a paradox. While it may provide opportunities for developing countries to integrate into world markets, it does not create the proper environment to allow for the formation of high value-added, export-based manufacturing.

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*Young farm labourers harvesting cocoa in Côte d'Ivoire.*

determine quality standards, and have the final say in linking producers to markets. Through takeovers and mergers, the multinationals have gradually increased the scale of their operations, and in the process have gained considerable economic and political power.

But with increasing scale comes risk. The introduction of market reforms in many producing countries meant that the multinational buyers of primary commodities were vulnerable to the poor performance of their suppliers, and thus became more insistent on controlling product and process quality specifications further down the value chain.

Further factors that have led to multinational traders and processors controlling value chains include changing consumer demands, and the growing influence of retailers and supermarkets. Growing numbers of consumers want to know, for example, exactly where their coffee comes from, all the way back to a farm in, say, Costa Rica. Some consumers prefer to buy organic products, such as t-shirts made of organic cotton, while others want to be sure that child labour was not used to produce the products they buy. This so-called 'traceability' is a quality management tool and is increasingly used as marketing strategy for niche products.

Consumer satisfaction has become a common goal – and concern – of all actors in many supply chains. Firms are under pressure to ensure that not only their own companies but also producers and suppliers throughout the entire chain comply with internationally agreed industry codes of conduct. As a result, international traders and food processors have become more dependent on the local suppliers operating at the bottom of a chain. This also entails greater responsibility, in particular to provide producers with the information and the new technologies they need to comply with new production and process standards.

## Upgrading

If small producers in developing countries are to cope with the challenges of globalization and increased competition, it is essential that they improve their businesses. This may involve acquiring new capabilities that enable them to participate in particular chains, or to access new market segments, and in the process gradually move up the value chain. There are various options for upgrading, all of which require improved access to information and knowledge.

- *product upgrading:* moving into more sophisticated product lines with increased product value;
- *process upgrading:* transforming inputs into outputs more efficiently by reorganizing the production system or introducing superior technologies;
- *functional upgrading:* acquiring new, superior functions in the chain, such as design or marketing; or
- *inter-sectoral upgrading:* applying newly acquired competences to move into a new sector.

Here too, power relations play a part. For weaker actors, upgrading can be enabled or hindered by more powerful

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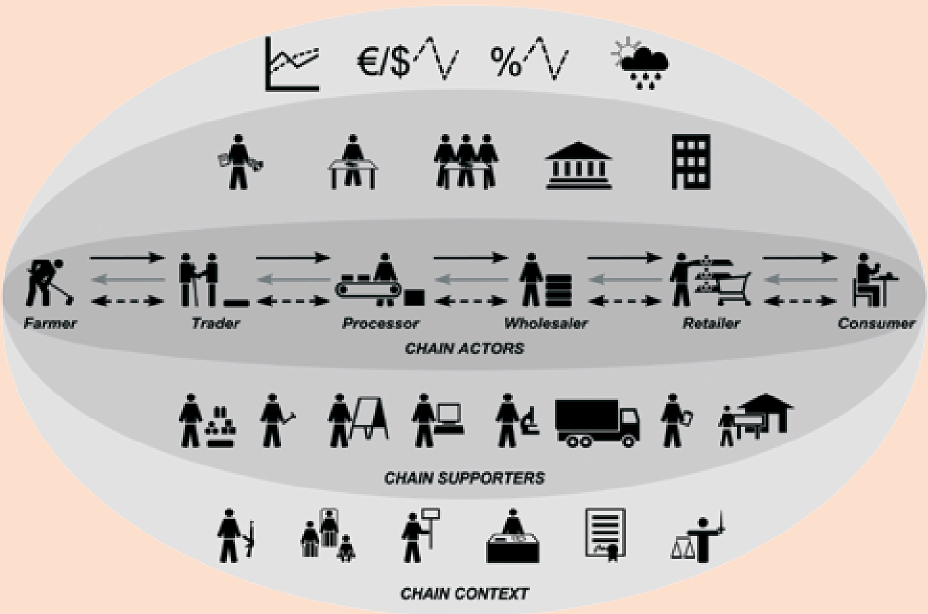


From farm to fork: the numerous factors that influence gobal value chains. KIT/IIRR (forthcoming) *Value Chain Finance: Beyond Microfinance for Rural Entrepreneurs*. KIT Publishers, Amsterdam.

players, including governments, and by existing social structures. For example, research and extension services can support cotton farmers in shifting from conventional to organic cotton, which fetches a price premium. But the size of this premium is negotiated between buyers and sellers, and can fluctuate from year to year, affecting the decisions of cotton farmers on whether to invest in improving their plantations.

The gains resulting from upgrading strategies are often unequally distributed. For example, fair trade organizations aim to pay poor farmers a fair price for their produce, but membership of such schemes is often linked to land ownership. As a result, the benefits of fair trade often go to male landowners, and not to the migrant labourers and female farmers who do not have title to the land they work. Many development initiatives have attempted to benefit small producers by shortening value chains. In practice, this results in the exclusion of middlemen, who may also be poor and may have difficulty finding alternative employment.

Thus the weakest actors in a chain often enjoy very few opportunities to upgrade their businesses. However, as Malcolm Harper shows (page 19), given the right circumstances, small producers can be profitably included in value chains.

## Empowerment

In order to be profitably included in value chains, farmers and small producers need to make their own informed decisions about their work and livelihoods. In fact, empowerment can lead to 'self-exclusion', if farmers choose to remain outside or leave a chain because they foresee too little profit and too many risks.

Chain empowerment means that farmers strengthen their capacity to manage parts of a chain or specific activities. Two aspects are important: who does what in the chain (vertical integration), and who determines how things are done (horizontal integration). Farmers may be concerned only with production: they prepare the land, plant seeds, apply fertilizer, control pests and weeds, and harvest the crop when it is mature. But they may also be involved in activities higher up in a chain, including sorting and grading, processing or trading their produce. If farmers are involved in a wide range of activities, this contributes to their empowerment. But true chain empowerment requires that these producers gain economic power by becoming involved in managing the chain. Farmers can participate in controlling the terms of payment, defining grades and standards, or managing innovation. One way they can obtain the power to do this is to set up their own organizations (see box, page 20).

## Inclusion with and for the poor

Including the poor in value chains requires their empowerment through improved competences, resources and technology. Any GVC analysis should start from the recognition that relations in a value chain are determined not only by shared goals and interests, but just as much by power and diverging interests.

Women workers and rural entrepreneurs are perhaps the most familiar victims, as Linda Mayoux points out (page 17). The potential of interventions to strengthen value chains and to empower small farmers in developing countries will remain limited as long as poor women and men cannot negotiate the conditions under which they want to participate. As long as they are unable to do this, being included in a global value chain can be a rather risky business, rather than an opportunity for growth. ■

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