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Enabling the rural poor  
to overcome poverty

## **Round table 2**

### **Rural employment promotion through the value chain approach**

Governing Council — Thirtieth Session  
Rome, 14-15 February 2007

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For: **Information**

## **Note to Governors**

This document is submitted for the information of the Governing Council.

To make the best use of time available at Governing Council sessions, Governors are invited to contact the following focal point with any technical questions about this document before the session:

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## Round table 2

### Rural employment promotion through the value chain approach

1. Today, the international market for agro-products is dominated by large supermarket chains. Instead of a large number of small retailers selling products supplied by others, a small number of powerful giants now determine what needs to be produced, and under what conditions. At the same time, there is growing concentration at various points along the value chain,<sup>1</sup> for example among input suppliers and food processors, while higher mandatory and voluntary standards dictate production standards and raise entry barriers.
2. Lead firms – which are predominantly based outside developing countries – create powerful brand images that shift power and value away from developing countries; and imbalances between developing and developed countries are likely to increase. Market consolidation and increasing scale requirements mean greater entry barriers for smaller firms, reduced market options and increased costs stemming from the need to meet product and process requirements. With labour in abundance worldwide, the pressure on the supplying firms in developing countries to be competitive is growing.
3. Trends in international markets are being replicated at the local level, as regional retailers in developing countries apply global practices in their local supply chains. Improved infrastructure and more demanding consumers will enable these retailers to gain strength and change local agricultural structures.
4. Buyer-driven chains focus on quality, consistency and reliability. Smallholders lack the experience, knowledge and means to fulfil the production requirements of more demanding consumers and are therefore excluded from the process. International competition is fierce, markets are volatile and prices are in steady decline. If small producers are to venture into the modern world of agriculture, they must be able to meet the uncompromising demands of the market. The question arises as to which smallholders are best equipped to enter these more demanding value chains, and under what conditions.
5. Quite often, agro-industrial firms prefer to contract wealthier farmers, who are able to invest more and require less assistance. And, most importantly, dealings with wealthier farmers mean lower transaction costs. This implies that interventions linking smallholders to high value chains often target more advanced smallholders, for obvious and justifiable reasons.

### Changes in rural employment

6. A number of factors are influencing rural employment patterns. The HIV/AIDS pandemic is having a devastating effect on the composition of the rural population. Migration often means that the most productive leave, although this also brings remittances to rural areas. On a broader scale, dynamic global markets and powerful actors are forcing upstream processors and producers to become more flexible and reduce costs. This is often achieved by cutting back the permanent workforce and increasing the number of casual workers. The income of these workers often places them far below the poverty line. In sum, inequality is increasing between developing and developed countries; between urban and rural areas; and among the various categories of workers along the value chain. The upgrading of value chains has merely fuelled the need for more unskilled workers, particularly among women. However, these workers could soon become redundant.

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<sup>1</sup> A value chain is described as the full range of activities necessary to bring a product from conception to end use and includes design, production, marketing, distribution and other support functions.

## Selecting subsector and intervention

7. Some 40 countries depend on a single commodity for more than 20 per cent of their export income. Such high dependence on few commodities makes economies highly sensitive to shocks, global and otherwise. Many developing economies need to focus on diversification. A realistic strategy in agriculture would be to develop, gradually, more subsectors and value chains. However, potential subsectors would need to be carefully identified. If employment creation is the objective, then employment criteria need to be included in the subsector selection process.

## Donor responses

8. Promoting value chain development will result in local economic development, but it will not automatically create large-scale rural employment. Support to the development of value chains is relatively new and complex. The outcomes can be impressive, and need to be documented with care and attention. Current research has not yet provided a systematic assessment of the impact of changes on agricultural and agro-processing jobs. Now that donors have embraced private-sector development as an effective strategy to reduce poverty, one would expect them to be equally eager to finance research to demonstrate that impact to potential private-sector parties. After all, value chains might be supported by donors, but they are developed by private-sector actors.

## Questions to guide the round-table discussion

- Should donors and governments direct their attention to promoting the development of global or local value chains?
- How can donors and governments ensure that employees benefit from improved employment conditions without jeopardizing the local or international competitiveness of the actors in the value chain? Should they strive to create high-quality employment for a few or unskilled jobs for the masses?
- How, and under what sort of conditions, should donors and governments support private-sector actors in improving their performance in the value chain, thereby creating adequate on- and off-farm employment for rural poor people?
- What role should donors and governments play in the process of analysing and selecting subsectors? Should they support micro-level interventions that can be replicated or should they seek broader interventions that can provide maximum leverage?

## Chairperson/moderator

**Mr Jim Tanburn**, Coordinator, Donor Committee for Enterprise Development

## Panellists

**Mr Hans Posthumus**, Enterprise Development Consultant

**Mr Goran Damovski**, Supply Chains Integration Officer, Agricultural Financial Services Project, the former Yugoslav Republic of Macedonia

**Ms María Oliva Lizarazo**, Director, Rural Microenterprise Development Programme, Colombia

**Mr Christian W. Borgemeister**, Director General, International Centre of Insect Physiology and Ecology

