

Value Adding, Agroenterprise and Poverty Reduction: A territorial approach for Rural Business Development¹

Mark Lundy

m.lundy@cgiar.org

Carlos Felipe Ostertag

c.ostertag@cgiar.org

Rubert Best²

r.best@cgiar.org

Rural Agroenterprise Development Project
<http://www.ciat.cgiar.org/es/agroempresas/htm>
Cali, Colombia

CENTRO INTERNACIONAL DE AGRICULTURA TROPICAL (CIAT)

RURAL AGROENTERPRISE DEVELOPMENT PROJECT

¹ Paper presented at the First Henry A. Wallace Inter.-American Scientific Conference, "Globalization of Agricultural Research", CATIE, Turrialba, Costa Rica, 25-27 February, 2002.

² Rural Agroenterprise Specialist, Marketing Specialist and Project Manager, respectively, of the Rural Agroenterprise Development Project, CIAT. The authors can be reached via e-mail at : m.lundy@cgiar.org. The ideas and opinions expressed in this document are solely the responsibility of the authors.

Introduction

Major strides have been made in the past decades in improving agricultural productivity throughout the developed and developing world but, despite this success, rural poverty remains high on the global agenda. Small holders faces substantial barriers to achieving improved livelihoods as commodity prices decline, national and global markets integration leads to increased competitiveness, public sector reform reduces both direct and indirect assistance and natural resources become scarcer. Against this somber backdrop, however, opportunities exist for rural populations to improve their livelihoods through adding value, diversification of income generating activities and organization.

Background

Since the decade of the 1970s, many rural areas of the developing world have seen two parallel processes advance. On the one hand, increasing agricultural productivity due to improved varieties and management techniques promoted by the Green Revolution has led to greater yields and, paradoxically, declining real prices. This situation, due to inelastic demand, has allowed some areas to achieve food security but not escape from economic poverty. On the other hand, the last thirty years have witnessed an increase in the rate of natural resource deterioration with fragile ecosystems being exploited by populations with few incentives or opportunities to implement sustainable management practices in a profitable fashion.

In addition to these longer-term processes, other trends have been at work during the last decade. Prime among these is the move towards globalization. In the agrifood sector globalization has meant vertical integration, market survival based on competitiveness, food quality, safety, environmental sustainability and an increased reliance on information and technology. As a result, two important paths are developing: a production oriented “agribusiness” path and a “consumer/market orientation” path. The first strives for price-based competitiveness based on the reduction of production costs through economies of scale, vertical integration and biotechnology. This is the realm of large-scale production of basic grains and other commodities driven by productivity concerns. Market permanence in this path is based on low cost and volume, leading towards increasingly large farms, price based competition and low unit profits. The second path seeks competitiveness through product differentiation and the development of niche markets and is driven primarily by consumer preference. The small holders who have adapted successfully to these new conditions have done so through the adoption of the “consumer/market” strategy based on organization, integration with market chains and actors and the acquisition of business and marketing skills (Wheatley, 2001).

Public sector reform and reduction is a second important trend, especially in the context of Latin America, in regards to rural areas. Major themes include privatization, devolution, popular participation and effective land-use planning. In concrete terms, public sector reform has led to a reduction in state support for agriculture and, in turn, increased reliance on private sector actors to link farmers with markets. While some success stories exist, in the majority of cases the private sector has proven incapable of replacing previous state services due to high transaction costs, dispersed clientele and low (or non-existent) profits. As a result positive change has focused on privileged areas - those that possess infrastructure, existing market links, positive stocks of human, natural and economic capital, among other factors - while vast areas have seen their local and regional economies stagnate.

In light of these trends, rural livelihood strategies have begun to diversify beyond production to include both farm and non-farm income sources. Declining real prices for basic agricultural commodities and an increase in the value added off-farm through post-harvest processing and marketing make this a logical choice (Rosegrant *et al.* 2001). According to recent work in Latin America, some 40% of rural incomes are now non-agricultural (Berdegue *et al.* 2000) while up to 80% of the value of final product is a result of postharvest processing and marketing (Cano 1998).

Importance of value adding and agroenterprises for poverty reduction

A brief review of the above trends shows that increased agricultural productivity is not sufficient to improve rural livelihoods within a context of globalization, declining commodity prices, public sector reform and increasing natural resource degradation. A focus on post-harvest activities, differentiated value added products and increasing links with niche or specialty markets would appear to be the strategy open to smallholders. A recent study on the impact of non-traditional crops on the livelihoods of rural producers in Mexico reports that improved market links and product diversification increased incomes by 58% while value adding activities accounted for a 350% increase in farmer income (Ramírez 2001).

In addition, value adding could prove useful as a poverty-reduction tool if it leads to increased on and off farm rural employment and income. Golleti and Samman (1999) highlight the poverty reduction potential of post-harvest and value added activities noting that gains in rural income and employment are complemented by reductions in food prices for urban dwellers and improvements in processing and market chains that reduces traditional food preparation times, thus releases time for more productive activities. The net result, therefore, may be positive for both the rural and urban poor.

In order to take advantage of this potential, however, the resultant activities must be competitive, sustainable and involve low-income rural populations. Competitiveness can be understood in this context as: (a) the establishment of production systems that make efficient use of existing financial, human and natural resources; (b) a market orientation which produces the right product for the right buyer at the right time and price; (c) appropriate business and marketing skills and organizational schemes which lead to economies of scale, and; (d) improved links among market chain actors and flows of information and technologies. The sustainability of these activities should be measured in economic, social and environmental terms.

The participation of low-income rural populations is key to achieving poverty reduction. Care should be taken, however, in the design of realistic organizational schemes, which play to an existing or easily achievable skills base rather than expecting smallholders to become independent entrepreneurs overnight. Stringfellow *et al.* (1997) provides interesting evidence in this regard, showing that many of the benefits achieved by relatively autonomous smallholder owned and managed cooperatives can be captured by more dependent – i.e. less highly trained and skilled – groups if appropriate links are developed with other market actors.

A method for achieving both value adding and poverty reduction is the strengthening of the rural enterprise sector in southern nations. Rural household processing enterprises exist in a wide variety of products (and are feasible in a great many more) generating added value and non-farm employment opportunities for rural populations. Recent work in this area shows that rural agroenterprise development and value adding can contribute to reducing levels of rural poverty.

Examples may be found in a variety of products such as cassava, rice, tropical fruit, basic grains and others (see Gottret and Raymond 1999; Goletti and Rich 1998; Watts et. al 1988).

This sector faces a variety of hurdles, however, which must be resolved before a significant impact of rural poverty can be achieved. Chief among these are the identification of market opportunities, access to appropriate processing technologies, implementation of effective business organization practices, more efficient farm to market channels and the timely provision of key financial and non-financial business development services. These limitations can be overcome through the development of skills, services and alliances between local and external actors and agencies.

The following section details the approach developed by CIAT's Rural Agroenterprise Development Project in this regard.

A territorial approach for Rural Business Development

The Rural Agroenterprise Development Project (RAeDP) at CIAT began work in 1996 as an outgrowth of previous work on post-harvest technology in cassava. The purpose of the project is to link smallholders with growth markets and motivate the adoption of conservation practice through the development of techniques and information for the establishment and strengthening of rural agroenterprises and their complementary support services. In particular, the project focuses on strengthening local capacities for rural business development through information, methods and institutional schemes in collaboration with local partners.

Basic values of the project include: (a) an entrepreneurial, market oriented focus, (b) participatory decision-making with partners, (c) focus on strengthening existing local skills and building new ones, (d) search for consensus among actors, (e) equal access to opportunities for participating groups, and; (f) social, economic and environmental sustainability.

The territorial focus has been developed in three specific field sites: Pucallpa, Peru; Cauca, Colombia; and Yorito, Honduras. In each of these sites, CIAT has worked with a variety of local partners including producer groups, NGOs, governmental organizations, private sector and others. It is out of this fieldwork and dialogue with partners that the following approach has evolved.

Prior to explaining the approach in detail, it is important to explain why CIAT has chosen a territorial approach as opposed to the more developed area of sub sector analysis. By focusing on a given geographical area or territory, it is hoped that a local skills base may be built that not only generates positive returns for a specific sub sector or farm to market chain but also spill over effects which contribute to a diverse and dynamic local economy. By not limiting work to a specific product, a territorial approach allows flexibility and adaptative learning more appropriate to complex and dynamic market driven systems. Finally the creation of human capital and the improvement of both bonding and bridging social capital among organizations are embedded in this approach. This last point is important for achieving sustainable gains against poverty in a region.

The territorial approach consists of four major areas of work:

1. The identification of a specific interest group composed of diverse local organizations with interest in rural business development.
2. Identification and management of market opportunities available to the region.
3. Participatory sub sector analysis and consensus building with market chain actors.
4. Provision of appropriate and sustainable business development services for the region.

The entry point for this approach is the identification and consolidation of a local interest group. The other areas of work are then subsequently developed in collaboration with that group.

3.1.1 Local interest group formation

The formation of an interest group around the theme of rural business development is an iterative process that varies depending on the organizations present in the area, previous experiences and the necessities of the local population. In our experience, these groups usually include strong representation from producer organizations and NGOs with somewhat lesser participation by public and private sector actors. Membership in the interest group and the organizational form are decided by the participants, as is the demarcation of the territory in which the interest group seeks to work. To facilitate these decisions, two specific activities are carried out with the interest group at the beginning of the process. First, a profile of the territory including biophysical, social, organizational, institutional, economic and political concerns is developed with secondary data and the use of rapid rural appraisal tools. This information provides a common basis for decision-making among group members. Based on this information, a consensus for action is developed including the elaboration of a shared vision, mission and values, organizational structure and rules and an initial action plan. In this stage topics like market orientation (producing what can be sold as opposed to selling what we produce), entrepreneurship, participation and alliances are debated. This process is key since it allows group members to discuss and analyze past experiences and decide on what actions are appropriate in the future.

Identification and management of market opportunities

Once the interest group exists, one of the first questions is what products and/or areas are most likely to generate positive impact for the region. To avoid past mistakes where increased production led to saturated markets, low prices and continuance of the poverty cycle, a market orientation is developed through the identification of market opportunities. This process consists of two types of work: specific market studies and the on-going management of market intelligence. In the first area, CIAT has developed a market opportunities identification manual (Ostertag 1999) which seeks to respond to three main questions: (a) what products show strong market demand in terms of increasing volumes and prices; (b) which of these products can be produced in the region given the biophysical characteristics, infrastructure and access to productive resources; and, (c) of those products identified in (a) and (b), which are of interest to smallholders. The end result is a portfolio of options, which respond favorably to the three questions. The size and diversity of this portfolio varies depending on market conditions, biophysical possibilities and farmer interest but normally includes from ten to thirty possibilities.

In the area of market intelligence, CIAT seeks to build local capacity to generate, manage and disseminate key market information on a permanent basis. This capacity involves not only direct

market visits by interest group members but strategic alliances with national market information system programs and the elaboration of dissemination tools appropriate to the rural context.

The range of tools developed by CIAT in this include the following:

Table 1. Market Opportunity and Intelligence Tools

Aspects	Tools			
	Market Opportunity Identification	Rapid Market Study	Market Visits	Local Market Intelligence System
Duration	3-5 months	1-2 months	1-4 weeks	3-4 months start-up
Frequency	Periodic	Periodic	Periodic	Permanent
Thoroughness (1-5)	4 – 5	2 – 3	2	2 – 4
Complexity (1-5)	4 – 5	2 – 3	1 – 2	2 – 4
Local capacity versus external facilitation (%)	30/70	50/50	70/30	Initially 80/20, then 50/50
Focus on new products (1-5)	4 – 5	3	2	3 – 4

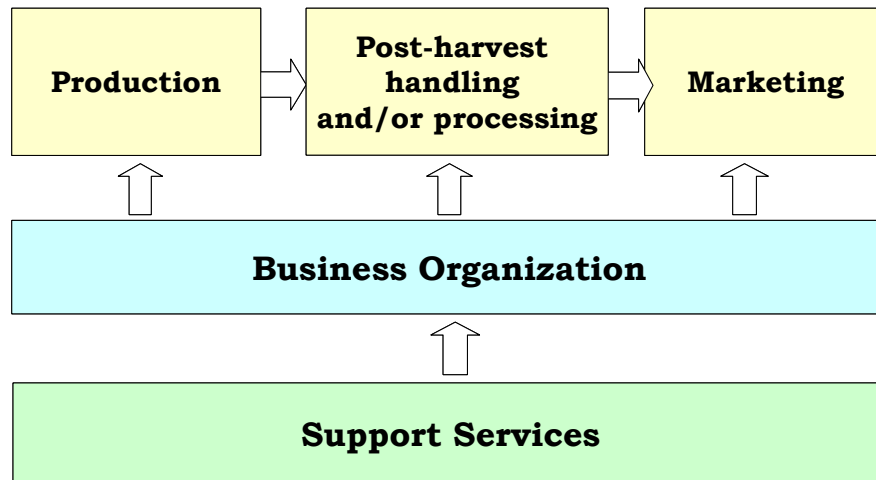
Source: CIAT Agroenterprise Development Project

The end result of a market opportunity identification study is a basket of possible options for development in the selected region. At this stage, the interest group prioritizes these options based on local criteria in a participatory fashion. Local criteria used have included strength of market demand, product profitability, environmental impact, perceived ex ante development impact, organizations interested in the product among others. These criteria vary by region. Using local criteria the market options are ranked and a decision made on which option(s) to pursue first.

Integrated Agroenterprise Projects

At this stage the local interest group moves into the participatory analysis of the selected product farm to market chain using the Integrated Agroenterprise Project (IAP) method developed by CIAT. The IAP method seeks to facilitate the analysis of the market chain by the actors directly involved and, through this process, generate collectively owned information and a consensus for action. The scope of this analysis is somewhat broader than a typical sub sector approach in that includes not only the farm to market chain as such (production, post-harvest/processing and marketing) but also two important cross-cutting areas: business organization and the provision of business development services (see graphic 1).

Graphic 1. Scope of IAP analysis

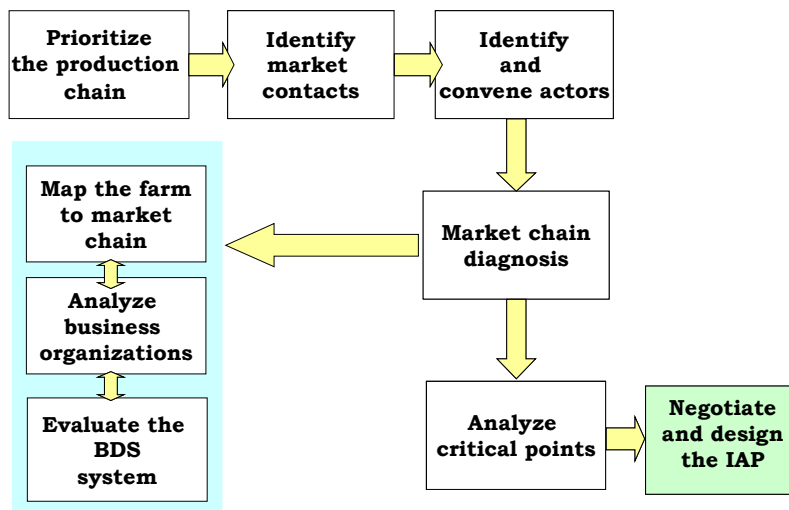


Business organization and support services present in a farm to market chain are key to understanding the possibility of improving chain performance through the effective use of existing skills and services as well as identifying important bottlenecks that inhibit such improvements.

The IAP method starts after the selection of priority market chains based on local criteria and information generated in the phase of market opportunity identification. After that, specific market contacts are identified and a simple database constructed with relevant information about both market contacts (name, address, phone and others) and product conditions (quantity, quality, frequency, price and presentation). This is complemented by a broader identification of relevant actors in the phases of production, post-harvest and/or transformation and commercialization to participate in the analysis of the chain. Information is gathered on the farm to market chain with representatives from the different phases using participatory tools, focus groups and direct interviews. Initially each the participants in each phase work in separate small groups in an effort to avoid undue influence by relatively better-informed actors. The information generated is reviewed by the actors who identify and analyze bottlenecks and propose solutions. At the end of the process, facilitated consensus-building workshops are held where all information is shared and discussed with the various actors with the goal of identifying positive synergies among actors, common interests and critical points where strategic investments can achieve high returns.

Graphic 2 shows the steps used in this analysis.

Graphic 2



4 Steps in the IAP method

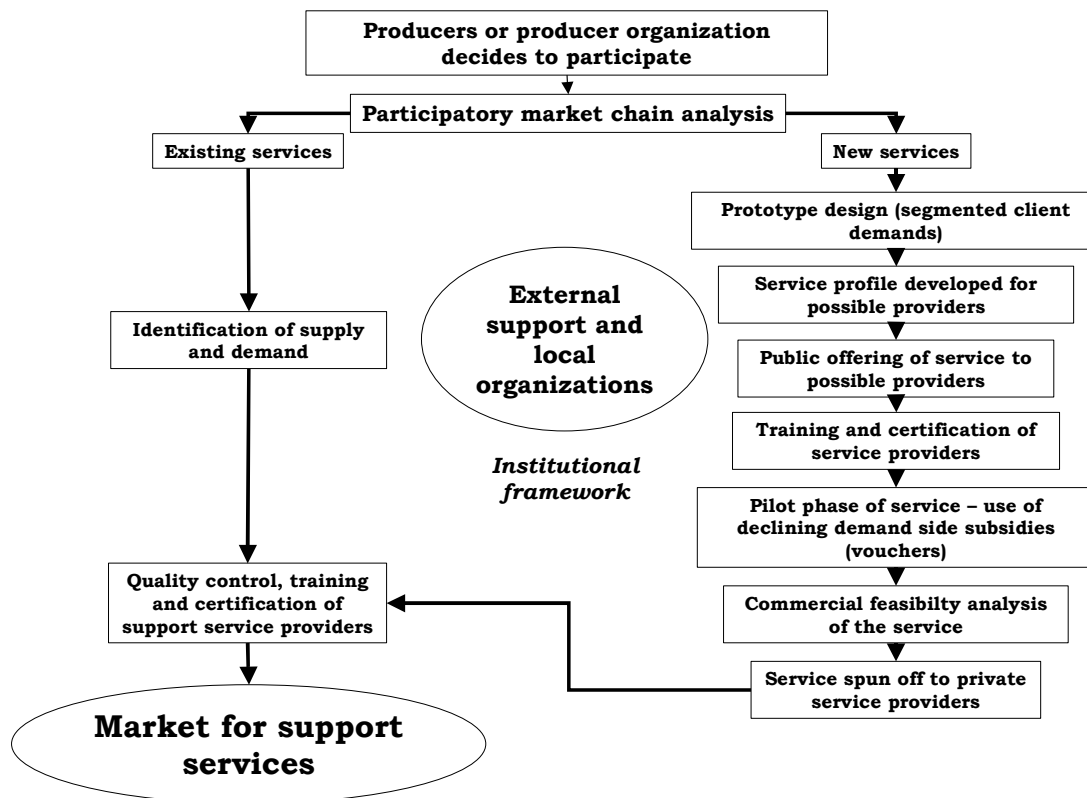
After the process of negotiation with actors occurs, an action plan, or Integrated Agroenterprise Project, is drafted which includes both research and development activities in the short, medium and long term. The goal of this IAP is to improve the competitiveness and sustainability of the chain through the development of a common business development vision among various actors. Once a common vision has been established, specific development or research activities may be disaggregated into discrete projects depending on funding opportunities and donor interest while conserving a clear idea of where everything fits together.

The implementation of activities is coordinated by the local interest group who sources appropriate funds and technical services based on the demands identified in the IAP. By learning how to do design and implement an IAP – diagnose, analyze, design, source funds and coordinate implementation activities – the local interest group develops important capacities, which are needed for other future IAPs

4.1.1 Provision of appropriate and sustainable Business Development Services

A final area of work in the CIAT approach is the provision of appropriate and sustainable Business Development Services or BDS. In addition to the needs identified in IAP analysis and design, a third CIAT methodology is currently in development to promote the provision of effective BDS in rural communities. This focus covers financial, non-financial, formal and informal services and seeks to build functional markets for BDS that link specific demands with suppliers either at the local, regional or national level. Substantial fieldwork remains for this method but the basic focus is shown in Graphic 3.

Graphic 3
Creating markets for BDS in rural communities: methodology



Some critical points in the area of BDS are the following:

- BDS should be seen as a for-profit activity that complements on and off-farm employment. Potentially, functional BDS markets could not only increase local economic competitiveness but also provide important opportunities for semi-technical employment in rural areas.
- Identification and inclusion of informal service providers (producer experts in technical assistance, for example) as well as formal (technicians and extensionists) in market and product demand development. An effective local BDS market will probably consist of many informal actors supported and complemented by a lesser number of formal ones.
- Need to improve the effectiveness of BDS, both formal and informal, with the goal of increased competitiveness and sustainability. BDS should help facilitate positive gains in competitiveness rather than maintain the status quo.
- Use of partial and declining subsidies to promote innovative services. Services should strive for profitability but some may require on-going support given their strategic nature.

Initial work is being carried out in collaboration with IICA Ecuador in this area.

4.2 Some initial results from the territorial approach

The comparative strength of the CIAT territorial approach to rural business development lies in the sum of its parts. Many organizations, both research and development, are working on

specific areas such as markets, sub-sector analysis or the provision of BDS but few have developed a clear idea about how these areas link together in a given geographic area. To illustrate this point, three brief examples have been included.

4.2.1 Black pepper in Pucallpa, Peru

Black pepper was identified as having a substantial market demand in Peru given that Pucallpa is the only producing area in the country. The application of the IAP method substantiated this market opportunity and showed farmers that the prices they received for their products was only a small part of the value that this same product received in Lima. Price differences of between 600% and 1,000% were found in this chain. Based on this information, 45 small producers formed a private business (Piper S.A.) and decided to implement the IAP. In the first six months they improved and homogenized their local post-harvest practices through a horizontal (farmer to farmer) process and entered into negotiations with an industrial buyer in the city of Huancayo. As a result of the first process, participating producers differentiated their product, achieving 20% more for each kilo of pepper than non-participants. In addition, Piper S.A. sold 1.5 MT (approximately 10% of the local harvest) to the buyer in Huancayo in two lots. The price paid for the first lot was 58% above local market price while for the second lot a 30% increase was achieved. After the second sale, imports from Ecuador depressed prices limiting further sales. Piper S.A. has purchased technical and marketing assistance from CRESE S.A., a private for profit applying CIAT's territorial approach.

In addition to the short-term gains achieved in 2001, local producers have developed a clear business vision of where they hope to go in the mid and long-term. During fieldwork in October 2001 (after prices collapsed), farmers said things like, "now that we understand the market better, we realize that we can achieve better prices by improving quality and linking to buyers. But this is only the beginning. This year (2001) we sold pepper in Huancayo for more than 10 soles per kilo when local prices were, at best, 5 soles. But if we grind our pepper and package it for the local market, that same kilo is worth 22 soles. We are now looking for funds for a grinder and later on will see if we can grow and process for a large Lima company".

4.3 Cut flowers in Cauca, Colombia

The production of cut flowers – anthurium – has traditionally been a women's concern in the Department of Cauca, Colombia. When good market opportunities appeared for this product, an IAP was facilitated by CORPTUNIA, a local NGO, with three groups of women. The analysis of the farm to market chain revealed that profit were largely captured by flower shops in the departmental capital of Popayán while the producers themselves were barely covering costs. Armed with this information, a negotiating session occurred between representatives of the women's groups and possible buyers. This process resulted in a 24% price increase for producers and, in return, they agreed to sort, grade and pack the flowers based on their customers needs. More important that this initial gain, however, is the business vision which the women's groups have developed that involves the establishment of a direct sales point in the city and, in the long run, the sale not of cut flowers but of floral arrangements.

4.4 Coffee in Yorito, Honduras

Mention coffee to a Central American farmer and you are likely to hear nothing but complaints. That is not surprising given sustained price reductions on the world market and limited government support for the sector. Despite the market situation, a group of twelve producers in Yorito, Honduras has found a way to make their coffee more profitable. The elaboration of an IAP for coffee seemed far-fetched as coffee prices plummeted but the Agroindustry Committee

of CLODEST³ moved ahead anyway and identified an exporter in San Pedro Sula as a potential client. Initial negotiations led to a 16% price premium for their product over local buyers if they maintained strict controls that guaranteed high quality coffee to the buyer. This agreement was honored for three shipments and 227 quintales (11,350 kilos) of coffee were sold. Due to declining world prices, however, the buyer in San Pedro Sula backed out of the arrangement but, by that time, a local buyer offered the same conditions provided that the coffee be sold to him. An initial installment of 50 quintales has been sold to him. Since November 2001 when this process started, local coffee prices have continued to decline for producers who are not associated with the IAP. Currently the twelve participating producers are receiving 50 Lempiras (US \$ 3.13) per quintal while non-participants are being paid 25 Lempiras (US \$ 1.56) per quintal. Seeing as export price for a quintal of Honduran coffee is US \$ 45, much improvement can still be made in these prices.

As a result of improved market knowledge, a larger group of producers (approximately 45) have initiated moves toward ecological and organic coffee production. With the support of the Agroindustry Committee of CLODEST, they have been certified as transition coffee and plan to achieve additional certification in the coming years. Negotiations are underway with a coffee cooperative, which currently exports organic beans for the German market, to purchase the transition coffee at a premium.

4.5 Conclusions

Long-term increases in productivity have not solved the problem of poverty nor reduced the destruction of the natural resource base of many rural communities. Recent trends such as globalization in the agrifood sector and reduced state support limit smallholder options to one focused on product differentiation, value added and increasing links to niche markets. This trend is driven not by producers but by consumers interested in food safety and quality and informed about environmental and social impact. Value adding activities increase not only smallholder incomes, but present the opportunity to generate non-farm income, often for the very poor. At this stage, the debate is no longer about whether or not value adding is important but rather how to achieve it in practice.

This paper has presented an overview of an approach developed by CIAT and implemented in three specific sites in Latin America focusing on the strengthening or development of local capacities necessary to make the transition to a product differentiation and value added strategy. While initial results are positive, much work remains to be done to adapt and test these tools in diverse contexts, cultures and products.

³. A local consortium of organizations focused on sustainable development in the Tascalapa River watershed.

References

- Berdegú JA.; Reardon T; Escobar G; Echeverría RG. 2000. Policies to promote non-farm rural employment in Latin America. Overseas Development Institute, London, United Kingdom. 4 p.
(This document is available in internet: <http://www.odi.org.uk/nrp/55.html>).
- Cano CG. 1998. IICA. ACT-Colombia. Un proyecto de desarrollo agroempresarial, sustitución de cultivos ilícitos y reforma agraria para la paz. Instituto Interamericano de Cooperación para la Agricultura (IICA), Bogotá D.C., Colombia. 88 p.
- GASGA. 1999. The importance of post-production to sustainable rural livelihoods. Seminar No. 11, GASGA. Natural Resources Institute (NRI), University of Greenwich, United Kingdom. 102 p.
- Goletti F; Rich K. 1998. The impact of post-harvest research. Market and Structural Studies Division (MSSD). Discussion Paper No. 29. Washington, D.C., IFPRI.
- Goletti F; Wolff C. 1999. The importance of the post-production sector to sustainable rural livelihoods. Seminar No. 11, GASGA. Natural Resources Institute (NRI), University of Greenwich, United Kingdom. p. 9-20.
- Gottret MV; Raymond M. 1999. An analysis of a cassava integrated research and development approach: has it really contributed to poverty alleviation? Paper presented at CIAT Poverty Workshop, San José, Costa Rica, September 1999. Centro Internacional de Agricultura Tropical (CIAT), Cali, Colombia. 31. p.
- Ostertag CF. 1999. Manual for Market Opportunity identification with small farmers. hillsides ecosystem training manual No. 7. Centro Internacional de Agricultura Tropical (CIAT), Cali, Colombia. 1 v.
- Rosengrant MW; Paisner MS; Meijer S; Witcover J. 2001. 2020 global food outlook: trends, alternatives and choices. Washington, D.C., IFPRI.
- Ramírez L. 2001. Globalization and livelihood diversification through non-traditional crops: The Mexico case. Overseas Development Institute, London, United Kingdom. 4 p.
- Stringfellow R; Coulter J; Lucey T; McKone C; Hussain A. 1997. Improving the access of smallholders to agricultural services in sub-Saharan Africa: Farmer cooperation and the role of the Donor Community. Overseas Development Institute, London, United Kingdom. 4 p.
- Watts M; Little PD; Mock C; Billings M; Jaffee, S. 1988. Contract farming in Africa. IDA Working Paper No. 87. United States Agency for International Development.
- Wheatley C. 2001. Linking Farmers to Markets: The basis for a global post-harvest initiative. Paper presented at the PhAction meeting, CG Annual Global Meeting, Washington, DC.