INSIGHT

Reversing Rural Poverty with Value Addition in Agribusiness

Value addition in agribusiness may be integrated into different stages of the value chain, including the transportation of produce. Photo credit: ADB.

Scaling up farm activities through sustainable mechanisms that improve conditions and incomes of smallholder farmers can alleviate rural poverty.

Published: 03 February 2021

Introduction

Despite their economic progress, Bangladesh, the Democratic Republic of the Congo, Ethiopia, India, and Nigeria are still home to half of the world's poorest. Reduction in rural poverty, as seen from farm incomes, has been sluggish. In India, NITI Aayog, the federal think-tank, estimated its farmer income grew at a mere 0.4% compound annual growth rate during 2011—2016, down from 4-5% in 2004—2012. Further, National Bank for Agriculture and Rural Development, its federal agri-bank, estimated farmers' monthly income at around $127 in 2017, far lower than overall per capita.

Such numbers would be more adverse for smallholder farmers, who make up the majority of the rural base in populous countries like Bangladesh, the People's Republic of China, Egypt, Ethiopia, India, Nigeria, Pakistan, or Viet Nam, unlike Brazil or Mexico where their numbers are relatively lower. These smallholders pay the price of inefficient infrastructure, extortive middlemen, pricing opaqueness, apart from a dearth of skills, transport, and financial support for small agribusinesses. These factors are often skewed in favor of the large farmers and intermediaries.

Most smallholders engage only in the primary production of crops, not in their value addition. And that is a key reason for their limited bargaining power in the face of exploitative practices. For instance, Bangladesh is the second-largest jute grower globally with raw jute and yarn comprising two-thirds of its jute export in the first quarter of 2020. Cameroon, Ghana, Ivory Coast, and Nigeria produce about 70% of global cocoa, yet less than 1% of the world's chocolate is made in Africa. Indonesia and Malaysia make around 85% of the world's crude palm oil, yet only a small proportion is actually refined there.

Integrating Value Addition in the Supply Chain

Scaling up value addition, especially aimed at smallholders, can help the rural economies of such primary producers by enabling a better market price. That can improve their economic gains in the long run and reduce rural poverty.

Short-term solutions like cash benefits cannot bring a sustained change to the economic conditions of poor farmers. They need sustainable income-based mechanisms to improve the system they operate in. Increasing value addition in agribusiness can help in this context.

In the farm sector, value addition can be plugged into various aspects of the value chain, such as storing, drying, and cooling, energy supply, irrigation, agro-processing, cooking, pre-made food processing, transport, and marketing. Not only do jobs and incomes improve, a higher price fetched for value-add products results in a multiplier effect in terms of increased consumption demand in the local economy. It also augurs well for indirect beneficiaries.

Of course, mainstreaming value addition in the farm sector is tough. Lack of cooling and storage constrains food-related value addition. Lack of skills and technical know-how to develop an agribusiness is another, as well as lack of funding and incubation support.

But breakthroughs are visible.

Support for High Value-Added Farming

In Africa's Madagascar, Madecasse (now called Beyond Good), a United States-based organic chocolate maker established by Peace Corp volunteers, makes chocolate where it produces cocoa. In India, Ecozen, an agricultural technology company that manufactures solar water pumps and cold storages, offers solar-cooling solutions to store raw produce while Stellaps, which uses the Internet of Things to optimize supply chains, offers chilling solutions to process dairy products. In many regions, cooperatives and self-help groups are engaged in the making of jams, jellies, juices, condiments, and snacks.

While most cooperatives are small-scale, their skills can be leveraged for capacity-building programs in other rural regions. Farmer producer organizations are also proving to be a workable vehicle to promote value addition in agribusiness. India's NAFPO, a multi-stakeholder platform supporting the development of farmer institutions and businesses at the local level, is playing a leading role to mainstream this model.

Acquiring direct funding from banks can be difficult for smallholders. Indirect funding via programs led by research institutions, agri-focused impact funds, and blended finance solutions can help. Examples include CEEW-Villgro's Powering Livelihoods program in India, which gave 10 million Indian rupees (about $136,886) in funding to six organizations working on clean energy-based livelihoods solutions; Omnivore, an Indian venture capitalist fund investing in entrepreneurs working on agriculture and food systems; and Samunnati, an Indian agri-finance company offering financial and non-financial solutions around agricultural value chains.

Improving access to markets

To tackle market and infrastructure limitations, agricultural value chains may be developed to ease smallholders' access to markets and services and help fetch a better price.

Success stories in India include SAFAL, Delhi's largest retail network for vegetables with over 400 outlets, which sources directly from smallholders. The Sikkim Organic Mission, the action plan of Sikkim's state government to convert the Himalayan province into a fully organic state, used agri-marketing corporations that worked directly with the cultivators to improve their agriculture management practices and spread awareness about the organic produce for better price discovery. FarmLink aggregates organic vegetables from small farmers at its distribution center in Mumbai before sending the produce to large retailers. These initiatives help tackle the smallholders' remoteness from markets at a sub-national level.

Direct-to-consumer models have also picked up in India during the pandemic. The result is around 50% higher prices for farmers and about 30% lower costs for consumers; this shows the advantage of market disintermediation. Digital ordering and tech-enabled supply chains are themselves high value-added business opportunities. These unlock capital flows for agribusiness, including agricultural technology platforms that bridge the information and knowledge gap for farmers, thus reducing their dependence on exploitative intermediaries.

Poverty cannot be solved simply by looking at per capita income and short-term solutions. It needs a holistic look into the system that has created exploitative power dynamics, which is the primary cause of poverty for smallholders. Taking value-added farming to a population scale can help alter such power dynamics and create a long-term impact on rural poverty reduction.

This article contains key inputs from Sandeep Bhattacharya, India Projects Manager, Climate Bonds Initiative.

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