



How support for value chains can strengthen resilience

Background

Material poverty almost always goes hand in hand with increased vulnerability. Rural households with few resources have practically no chance to mitigate the consequences of climate change or to respond to economic shocks. Poor households are particularly hard hit by natural disasters, falls in producer prices for rural produce, and the increasing scarcity and cost of bought-in food products.

One goal of German development cooperation is to promote the resilience of poor groups in rural areas. Resilience is based on the ability to absorb shocks and the capacity to adapt to – or avoid – changing situations. ‘Absorption, adaptation and transformation’ is the collective name given to these livelihood protection strategies.

Resilience and value chains

Developing rural value chains can help enhance all three aspects of resilience. The following impacts are conceivable:

- The economic development of rural enterprises, their integration into the market and access to paid work raises the income of poor households. When more reserves can be built up, the infrastructure improved and families enabled to diversify their income sources, they can cope better with risks.
- Poor groups are often supplied with food and other essential goods via domestic value

chains. The enhanced performance of these value chains not only pushes down production costs and prices, but also improves storage and logistics. Developing value chains thus mitigates the risks of breakdowns in supply.

- A clear market orientation and the concomitant need to keep enhancing one's own competitiveness helps people to acquire the skills they need to adapt to changing conditions. These skills are also helpful when it comes to coping with shocks.
- Market development opens up new prospects and economic options. People become less dependent on local natural resources.

Options for action

(1) Developing rural value chains in general

The value chain approach embraces a large number of different types of state programmes, development projects and private initiatives. The fundamental principles include market orientation and the concomitant business requirements, gearing development to the concept of sustainable development and coordinating public and private-sector activities – from small farmers to employers' federations. And the private sector also has a growing interest in the social consequences of its actions and in avoiding social problems. The target groups of development cooperation are poor



groups that either operate within or are indirectly connected to value chains, especially small farmers, artisans and micro entrepreneurs, the working poor and the unemployed. Value chain promotion, however, also addresses poor consumers of the final products – basic foodstuffs and basic services.

The underlying concept and the methods used in value chain promotion are laid out in GIZ's ValueLinks manual.¹ ValueLinks is based on the concept of a sustainable or green economy. All measures aim to ensure the economic inclusion of poor groups and to improve resource efficiency and environmental sustainability. The contributions made by value chain development to reducing poverty, fostering economic development and preserving natural resources are also a contribution to enhancing resilience. This is true both of the resilience of the participating households and of the stability of the value chains and the economy as a whole.

(2) Particular measures to strengthen the resilience of specific target groups within a value chain

One thing that all poor groups have in common is their inability to protect themselves against risks and crises. To increase their absorption, adaptation and transformation capabilities, targeted measures are required. Two groups in particular need special support – rural micro-producers and the working poor.

Poor small farmers with few agricultural inputs are especially vulnerable to poor harvests and to economic or family emergencies that can force them to sell agricultural inputs or to go into debt. Within the value chain approach, a number of different interventions can be adopted to help reduce risks or help people cope with emergencies. These include:

- Investment leading to the improved productivity, production and marketing of rural products, in particular food products
- Preserving diversity in small farming systems
- Social organisation of individual producers in the form of self-help groups and farmers' associations
- Contractual agreements on procurement and sales channels with larger businesses
- Correct storage of produce to be sold, building reserves
- Secure land and water rights

- Improved local infrastructure (roads, natural resource management, water supply, electricity supply)
- Insurance to cover the risk of harvest losses and bad weather
- Options for diversifying income sources in order to minimise risks.

The working poor constitute a second vulnerable group in value chain promotion. Paid work does help households to diversify their sources of income, but migrant workers and day labourers are involved purely in subsistence and have no development opportunities. Many dependent wage labourers have no social insurance, nor are they insured against accidents. Even employment for international industrial enterprises involves a high level of risk. When economic crises hit, the least qualified employees tend to lose their jobs quickly.

Value chain approaches can strengthen the resilience of dependent wage labourers:

- In international value chains, we need to introduce incentives that encourage private businesses to promote processing and generate more added value in poor countries rather than focusing on the export of raw materials.
- Companies, especially western international companies, are anxious to avoid negative headlines or see their reputation tarnished through civil society actions. Development cooperation helps implement social standards (outstanding examples include the Fair Trade seal and the German Government's Textile Partnership).

(3) Shaping value chains that deliver essential products

The value chains that produce basic foodstuffs are key to achieving food security. The poor are also consumers. They are particularly dependent on the availability of affordable food and are directly affected by the volatility of food prices, which can fluctuate enormously on a seasonal basis or as the result of speculation. The fact that they can buy only small quantities of food at a time and cannot lay in stocks further increases their vulnerability.

The resilience of consumers can be strengthened in a number of ways. One of these is ensuring the availability of food on local and regional markets. This can be achieved by developing corresponding value chains. Measures here include coordinating supply

¹ Springer-Heinze, Andreas: Value Links 2.0; GIZ 2015

chains and logistics, and boosting productivity and production (also on the part of large-scale producers).

Another area of action focuses on measures to enhance the purchasing power of the poor. It would be possible to subsidise food for certain sections of the population or to provide the poorest families with cash through social security programmes and transfer payments, enabling them to buy essential foods. Both of these approaches would require the support of the state or development cooperation actors. Another interesting option is to sell on local markets the agricultural produce which does not meet international standards and would otherwise be used as fertiliser rather than food. Poor consumers can be assisted in setting up organisations through which they can obtain better purchasing terms: consumer associations and cooperatives can buy larger quantities, organise interim storage and pass on products to members on a non-profit basis.

A third area involves making provision for crises. It is the duty of the state to undertake the trade-policy measures necessary to protect import sources and to improve national storage capacities.

(4) Social-policy measures related to value chain promotion

In order to strengthen resilience, approaches to promote value chains must be accompanied by social-policy measures, including:

- Improved information and training in the areas of life planning and preventive health care
- Social-policy instruments including social insurance, health care, and food supplies in emergencies.

Additional reading

ValueLinks 2.0

Inclusive Business models in agriculture

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