

Rationale and Recommended Response for Strengthening business linkages: value chain development

During the past five years, many business linkage and value chain programmes have been launched by governments, international agencies, and NGOs. The main purpose of most of these programmes has been to assist small-scale farmers to participate in the changing agricultural markets. Interventions have focused mainly on improving the managerial and technical capabilities of farmers and their organizations, increasing farm level value addition and facilitating dialogue between farmers and other value chain stakeholders. Relatively less attention has been given to strengthening linkages among small and large businesses, or to other interventions that might improve overall competitiveness of the value chains. As a consequence of public sector preoccupation with farmers' problems, business linkage and value chain programs have not in many cases helped to ensure the sustainability and viability of the value chains.

Agribusiness managers and entrepreneurs have also been increasing the attention that they give to strengthening value chains. These managers and entrepreneurs generally understand market realities and chain requirements for being competitive, and focus their efforts on strengthening linkages throughout the value chain, upgrading technologies, improving trust, and reducing risks. Nevertheless, value chain development cannot in all cases be left to the private sector. Because agribusiness firms often face high costs and risks when setting up linkages with smaller scale farmers, these firms have a market incentive to work with larger farmers and to reduce the value addition passed back to farmers.

Public policy should be to increase farmers' benefits from stronger business linkages and value chains while also reinforcing the sustainability and viability of value chains. The public sector, international agencies, and NGOs can help achieve "win-win" outcomes from private and public initiatives to strengthen business linkages and value chains by (i) assisting farmers to meet the "specificity requirements" of the business linkage, (ii) building the flexibility of farmers to respond to business opportunities in other (related) value chains (iii) absorbing some of the transaction costs and risks faced by agribusiness firms in building the business linkage with smallholders, and (iv) resolving policy-related constraints on business linkages and value chain competitiveness faced by all chain stakeholders.

Focus of the debate

Do you agree that too much attention is being given to farmers' needs and priorities rather than to meeting the competitive challenges confronting agribusiness value chains?