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BRIEFING PAPER

PUSHING THE POVERTY FRONTIERS OF INCLUSIVE VALUE CHAIN DEVELOPMENT

INTRODUCTION

The value chain approach aims to achieve economic growth with poverty reduction, but there tends to be a poverty 'frontier' beyond which value chain development programs struggle to engage. Donors and practitioners have a wealth of resources, methodologies and interventions targeted at complex market systems, but they have been less adept at 'unpacking' the complexity of poverty in relation to markets—understanding how varying depths and types of poverty can affect i) project results and sustainability, and ii) the ability of the very poor to access and succeed in opportunities created in a market system.

UNPACKING POVERTY

Poverty is not homogenous and not merely a function of income. Understanding different levels of poverty—though generally keeping classifications internal to a project—can help practitioners better target the root constraints to opportunities. There are many ways to 'segment': for example, the Household Economic Strengthening approach adopted by PEPFAR uses three groups: families in destitution, families struggling to grow, and families prepared to grow.

There are many reasons why value chain development often fails to directly reach the poorest of the poor. Although the value chain approach is a systems approach, because the very poor are generally less prominent and less organized economic actors, they are often not part of our systems view. Yet they are part of market systems—while not always producers, they may be consumers, laborers or service providers. They may not be directly engaged in a targeted value chain, but may still form part of an interconnected system that affects the competitiveness of the targeted chain. Furthermore, the very poor may not be engaging in market functions for which there are obvious upgrading opportunities; or they may be engaging in a way that limits their ability to maximize opportunities. Compared to those who are 'less poor', the very poor tend to have fewer productive assets, fewer relationships with people who are "upwardly mobile" and a reduced ability to take on the monetary, time and/or social risks required for upgrading into market opportunities. Programs may target value chains that are ill-suited to the very poor or prioritize intervention points in which they are not present (e.g., targeting producers in a value chain in which the very poor are mainly laborers). In some cases, the very poor may benefit from a value chain program, but because the knowledge management system is ill-suited to capturing household-level data and interpreting indicators of poverty, the impact—whether direct or indirect—is never captured, and poverty-sensitive adaptive management and learning does not occur.

However, new insights are emerging—partially informed by recent innovations in microfinance graduation models and government-led poverty reduction programs in Ethiopia and Brazil—around how value chain development can explicitly 'pull' the very poor into markets in more gainful ways. This briefing paper presents some emerging guidance.

PROGRAM DESIGN STRATEGIES

There are several strategies a program may adopt to strengthen impact on the very poor, dependent on resources, context, and donor mandates. Many programs may simply take a more ***poverty-sensitive value chain approach.*** Analogous to applying a gender lens, this entails consulting a poverty expert during value chain analyses and project design, recognizing the poverty characteristics of who is (and who is not) being reached and why, adapting value chain principles appropriately (see next section), and integrating elements of push or pull activities to expand the 'frontier' of outreach.

PUSH AND PULL STRATEGIES

Push strategies are designed to facilitate the transition of the very poor out of a cycle of extreme poverty into a place where they can invest in livelihood streams (e.g., through building household assets, improving social protection, or strengthening capacity to manage risk). *Pull strategies* provide incentives for the more gainful participation of the very poor in economic opportunities so they can continue to improve their wellbeing beyond a project's life (e.g., by creating less risky entry points or lowering barriers to market entry).

Other programs may choose a more intensive '***pathways out of poverty' approach***, which relies on a more strongly articulated and operationalized vision for transitions, integrates sequencing, and is supported by robust causal logic and knowledge management systems. A pathways approach segments the target population according to various poverty levels, 'places' them along a pathway, and assesses the root causes that keep the poor from transitioning up or down that pathway. Interventions are then designed to help people graduate to a lower degree of poverty (or avoid backsliding into increased poverty), using push and pull strategies. There is often a disconnect—in programming and in the incentives and behaviors encouraged in actors—between push and pull activities; a pathways approach seeks a more holistic synchronization between the two, relying on sequencing activities and varying intensity levels of program support to incrementally address a root constraint.

Because pathways out of poverty are not linear—people are vulnerable to shocks from illness, weather and shifting market dynamics—safety nets are critical for sustainable transitions by the very poor. But even less poor beneficiaries are vulnerable to such shocks, and require safety nets to avoid backsliding and erasing gains. Safety nets include formal public social protection programs as well as remittances, savings, insurance, income diversification and social capital.

ADAPTING VALUE CHAIN DEVELOPMENT PRINCIPLES

In working with the very poor—whatever the strategy—practitioners may need to adapt the focus and intensity of some key principles of the value chain approach. A few examples follow.[1]

Evidence-based design. To have a robust evidence-based design, a program may need to complement market analyses with a labor market assessment or household analyses to understand the income and expenditures of a very poor versus a moderately poor household, how that changes over the course of the year, and how it may affect an individual's ability and willingness to meet contract obligations or invest in upgrading. Incorporating focus group discussions to understand risk appetites, shock mitigation strategies and positive deviation trends may yield valuable insights to inform design.[2]

Underlying, root constraints may be informed by different norms and informal rules for the very poor, and strategies that emerge may differ. For example, CARE's PSNP Plus program in Ethiopia found that savings groups were a more critical determinant of asset and income growth for women then for men, who more easily accessed other forms of capital. While market development programs often view economic incentives as key motivating forces and create interventions designed to leverage that incentive, risk reduction and maintaining social capital are often a greater driver of household decisions amongst the very poor.

Challenge of self-selection: In value chain development programs, beneficiaries usually self-select into participation, reflecting their incentives, confidence, willingness to upgrade, and resource availability. The very poor often do not (or cannot) self-select; value chain programs need to understand these reasons based on the unique program context to better determine what barriers to directly address, which

[1] For a fuller discussion of this topic, see microlinks.kdid.org/sites/microlinks/files/resource/files/PoP_Discussion_Paper.pdf

[2] For useful tools see: microlinks.kdid.org/library/pathways-out-poverty-tools-value-chain-development-practitioners

barriers to address through collaboration with others, and which are entirely outside the ability of a market development program to tackle. Programs can also find commodities that very poor households are more likely to self-select into—even more so than better-off households—such as honey production in Ethiopia.

A project also needs to demonstrate success before the very risk-averse feel comfortable participating, so additional focus may need to be placed on creating and disseminating successes early in a project, especially through those with influence, and allow beneficiaries to self-select throughout much of the project life.

***Facilitation*:** Value chain development programs look for change agents already in the system to drive change and allow the program to limit its direct distortions. This means the program must cede some control over who responds to an opportunity and the successes and failures that occur. This approach is vastly different than traditional approaches to reaching the very poor, and presents a challenge. Programs may need to search for different types of change agents that have influence over the very poor to use a facilitation approach effectively; or adapt techniques to include some direct interventions, which are gradually scaled back as the very poor become more able to take advantage of opportunities in the system—drawing on the facilitation principle of modifying the project 'offer.' Recognizing the recurring impact of malaria on household expenses and lost productivity in Tanzania, one program[3] used facilitation techniques to encourage the emergence of a commercial market for insecticide-treated bed nets, determining through research and market trials that the majority of citizens could afford the product at market price, while providing discounted vouchers for those in greatest need. Projects might also consider sponsoring, for a limited time, the cost of discounts at input supply shops or vendors of key assets if it is necessary to jumpstart market activity or as a strategy to build commercial literacy amongst the very poor.

[3] http://www.m4phub.org/userfiles/resources/1472011175532280-Sector_Spotlight_Health_Final_13Jul11.pdf

SEQUENCING

Sequencing interventions over time can gradually build resiliency, reduce dependency, change behavior, and help poor households become viable market actors. For example, a program may start households with low-risk, low-return activities before transitioning into higher return ones, or integrate asset transfers or vouchers that subsidize poorer groups' engagement in market activity before sequencing to more commercial terms.

CASE STUDY: SDC ASIA'S EXPERIENCE

On SDC Asia's value chain development program in the Philippines, labor served as an entry point to facilitate the gainful participation of the very poor in the milkfish value chain. The program's initial efforts were part of a longer-term vision and a pathways approach. Staff worked closely with industry actors as well as with the very poor to understand root constraints, using marketing activities to raise awareness of services offered by the very poor, and trust-building activities to build social capital and reduce employers' aversion to hiring from poor communities. As predictable labor payments reduced household vulnerability to risk, confidence grew, and the very poor were exposed to more opportunities in the chain, the project began to integrate skill building for other functions. The project tracked the typical trajectory paths of target groups over time and found that women and men tended to diversify differently.

See E-Consultation in Resources section for link to full case study.

Savings can be an especially effective component to sequence into program design. Savings groups can help the very poor build assets, reduce risk aversion, develop a basis for future credit and a reputation of reliability, build networks, and raise visibility for the very poor—all of which can slowly ready for participation and upgrading those unable to engage in core value chain development interventions. On a value chain development program in Tanzania, ACDI/VOCA and CRS are developing social and savings groups with the very poor, seeking out opportunities to slowly link these groups to marketing cooperatives (and vice versa). Knowledge management is key to sequencing: programs may need to pilot activities or seek out experiences of livelihood programs to better understand the length of time individuals may need to engage in one activity before transitioning to the next.

LOOKING TO THE FUTURE

One challenge donors and practitioners will face is how to avoid weakening impact at the systemic level of a sector when working with the very poor. Sustained movement out of extreme poverty requires a vibrant economy, and given limited project timeframes, often sector-wide impact will be lessened by involving the very poor. This is not always the case, however: In Jamaica, the Competitiveness Company found that despite initial resistance, when demand from the export market channel increased dramatically, traditional producers realized the need to start cooperating with poorer producers to supply this growing market. When incentives aligned—and especially because those incentives were apparent to change agents and leveraged by the project team—it drove collaboration, linkages and information exchange in a more organic way than anything that could be forced.

Additional challenges include:

- Greater attention in staffing and professional capacity building to include behavior change specialists, social scientists and vulnerability experts
- Greater sensitivity to the diversified income streams of the very poor, especially given Feed the Future's increased focus on staple crops
- Knowledge management systems that track *indirect* benefits to the very poor as well as behavior change and adapt implementation based on that feedback
- Increased expertise in labor markets in relation to value chain development
- Longer project timeframes—and more realistic economic growth indicator targets—that allow programs to work with the most capable stakeholders needed to catalyze growth while also integrating push and pull strategies that require longer time horizons
- Better partnerships and collaboration with groups working directly with the very poor—e.g., client referrals, coordination of outreach, or strategic alliances with safety net programs.

Leveraging the value chain approach to more directly extend benefits to the very poor is a relatively new application of the approach, and learning is still emerging. Further investment in research and implementation of pilots and programs will yield additional insights and refine practice to balance the need for catalytic, transformational economic growth with a greater sensitivity towards supporting more inclusive market development.

RESOURCES

Pathways out of Poverty E-Consultation Resources (includes links to eight case studies, a screencast, e-consultation summaries, and a discussion paper): microlinks.kdid.org/groups/speakers-corner/ e-consultation-pathways-out-poverty/discussion-resources

Pathways out of Poverty: Tools for Value Chain Practitioners (tool synthesis): microlinks.kdid.org/library/pathways-out-poverty-tools-value-chain-development-practitioners

The Value Chain Development Wiki, Vulnerable Populations Pages: microlinks.kdid.org/ good-practice-center/value-chain-wiki/vulnerable-populations-and-value-chain-approach

Lessons Learned from Sequenced, Integrated Strategies of Economic Strengthening of the Poorest (screencast): microlinks.kdid.org/events/after-hours/lessons-learned-sequenced-integrated-strategies-economic-strengthening-poorest

Meeting the Challenges of Value Chain Development Event, Reaching the Very Poor Workshop (presentations and discussion summaries): microlinks.kdid.org/library/reaching-very-poor

Please send comments and suggestions on this brief to Jeanne Downing (jdowning@usaid.gov) and/or Ruth Campbell (rcampbell@acdivoca.org).

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