

Crossfire: Can effective programming approaches to lift people over the poverty line focus on market systems alone?

Kristin O’Planick and John Meyer

Introduction

With the increase of 8.5 per cent or 56 million people falling into extreme poverty in 2021–2, effective development programming has become more urgent. Different approaches will be addressed in this crossfire.

Our two debaters bring a wealth of experience to the topic. Kristin O’Planick is a market systems expert with more than 20 years of international development experience, including with the Peace Corps, Chemonics International, Inc., and the United States Agency for International Development (USAID). She is currently the Market Systems Team Lead in USAID’s Bureau for Resilience and Food Security (RFS). John Meyer is a food security specialist with nearly 30 years’ experience consulting on and managing development programming in Asia, Africa, and Latin America. He currently serves as Senior Strategy and Impact Advisor in the Center for Resilience at USAID/RFS.

Today, 711 million people live in extreme poverty. Our debaters will argue whether effective programming approaches to lift people over the poverty line can focus on market systems alone or whether they need to be complemented by efforts at the bottom of the pyramid (funded by

donors) to promote extremely poor households’ financial inclusion and their participation in market systems (World Bank, 2022).

The views and opinions expressed in this paper are those of the authors and not necessarily the views and opinions of the United States Agency for International Development.

Dear John,

The scale of extreme poverty, as noted, is enormous. It is also a systemic problem that requires systemic solutions. Inclusive market systems development (MSD) can be an optimal approach given these realities. As an approach that seeks to drive systemic change at scale, it is well positioned to achieve impact.

The ex-post evidence that we have on MSD projects, albeit limited (but more coming!), shows us that sustainability and scale do happen when change is aligned with market incentives and dynamics and is driven by market actors themselves. We saw in Zambia that input firms shifted their view of smallholders from fringe to an important market segment (White, 2016). In Cambodia, there is evidence that input suppliers incorporated extension services into their business model with small-scale producers and expanded the model to

other market segments and product lines (Fowler, 2016). In Uganda, USAID documented the process of spill over that will drive scale given more time and durable relationships that will support the sustainability of critical market linkages for poor households (Khatiwada and Waitkuweit, 2021). These findings are important, as meaningful scale cannot be achieved until we are using approaches that decouple outcomes from funding levels (i.e., that don't require more money for more results). Given the available evidence, MSD seems capable of doing this whereas other approaches that have been tried over time have not delivered on sustainability and scale.

Taking a long view, 20 years from now, will donors still need to go from household to household to help people incrementally improve subsistence livelihoods? This is always the question I personally ask when looking at the effectiveness of approaches such as cash transfers, for example. There is evidence that a household can make its way out of extreme poverty with certain types of development assistance (Banerjee et al., 2015) or simply through unconditional cash transfers (Haushofer and Shapiro, 2018). And those effects may persist over the long run – although that is still being explored. I don't dispute this, and it is great news. But what does it do to change the systemic problems that put those households in a position of extreme poverty to begin with? Shouldn't we look to address root causes? If we can leverage incentives to nudge behaviours in such a way to reshape market systems so that they

are more competitive, inclusive, and resilient, perhaps we can create fertile ground for greater upward economic mobility and greater protections for the gains that households do make against poverty so that those gains are not lost in the face of the first shock. The system as it is now will continue to limit the poor to only the most incremental and often fragile improvements – potentially even across generations.

As an example of the potential of MSD to drive economic mobility and resilience, we can look to Naughton and Brady from DAI in 'Building resilience to crisis through digital financial services with a gender lens' (Naughton and Brady, 2022). Programme-facilitated expansion of inclusive digital financial services in Mozambique has allowed 35,574 smallholder farmers (half of whom are women) to register for affordable micro-insurance to help them protect their investments. Perhaps more importantly, beyond this pilot success, the partner businesses are adapting the business models for the long run, resulting in more focus on rural banking for on the one hand and establishment of a micro-insurance service line for on the other. As these services become embedded in the market and continue to expand, households escaping extreme poverty can leverage them in greater numbers to protect that advancement.

What should the responsibility of markets be vis-à-vis these populations? I do think that with MSD approaches we can reach many more households through the market. Now, cue the sceptics, telling me that a faceless

'market' cares only about the bottom line of the largest actors in the market. If we are talking about a 'Western'-style market like we see in the United States, Europe, Japan, Australia, etc., then I may have to agree, albeit with some bright spot exceptions that are growing globally, like B Corp Certification (with requirements for social and environmental performance, accountability, and transparency) and social enterprises more generally. I worry that our vision for what could be accomplished by market forces is too coloured by American culture and holds up our markets as the ideal.

We know that real people are behind market behaviour as producers and consumers. Their opinions on what is acceptable market behaviour have driven changes that benefit the extreme poor – mandated through regulation such as minimum wages as well as through voluntary triple bottom line objectives. So, what might happen if we leverage cultural values outside the 'rugged individual' American paradigm to drive changes in norms and market system structures? In places where public good and community welfare are dominant mental models, and we facilitate locally led systemic change, could a market system end up with different values? I think so.

Kristin

Dear Kristin,
Although we should be careful about a 'Western' bias when considering market systems in developing countries – competition and growth motivations, for instance, are not as highly valued in some cultures – we

can safely assume that market actors need to make a profit to survive and that profit can most readily be obtained from a clientele that isn't poor or remote. Focusing most of our development dollars on MSD, which is an otherwise worthy and efficient investment, will not break down the barriers to inclusion and can increase economic inequities in certain cases, such as in countries like Ethiopia, where the majority of the population is rural and many are marginalized and extremely poor. Those households do not participate significantly in the commercial economy outside their communities and they rely on traditional tools and methods for agriculture. When a crisis hits, these are the people who most often require humanitarian assistance and many require safety net support on a continual basis. Here are some specific reasons why these rural communities often derive scant benefit from traditional MSD that supports high-potential farmers.

Distance/isolation. Commercial markets are like oil stains, creeping out from larger cities but seldom reaching more remote areas. New inputs, tools, and methods may find a market in communities in close proximity but are neither marketed aggressively nor made available in the more distant sites. Similarly, wholesale buyers of agricultural products procure from larger farms in high-potential areas or set up contract farming schemes on prime land. The costs of seeking products of suitable quality in remote rural communities is prohibitive.

Knowledge. If attempts *are* made to promote technologies or market

opportunities in marginalized rural communities, many factors impede uptake. Literacy rates are low, particularly for women, as are rates of ownership of mobile phones and other communication devices, making mass messaging impractical. Even large and capable extension services are notorious for neglecting the poorest households, ignoring women farmers entirely, and they tend to focus on commercial farms and farmers. Poor smallholders are left to rely on traditional methods and materials.

Capital. Financial literacy and access to financial services are also highly constrained in marginalized communities. If new technologies somehow reach these locales and farmers are convinced of their value, they lack the money for purchase or see the risks of innovation as too great for the limited funds they have available. A vendor already wary of the increased costs of sales in remote areas will not reduce prices to accommodate the low buying power there.

Output markets and economies of scale. If somehow smallholders are able to produce high-quality farm products that they would like to sell to external markets, high transaction costs and small volumes available from each producer discourage buyers. Farmer associations that could serve to aggregate products for more efficient marketing do not often form spontaneously due to management challenges and the potential for financial disputes.

These constraints are systemic, often with deep social and cultural roots. They would also have a prominent position in an analysis of poverty and

food insecurity in these contexts and need to be tackled directly for poverty reduction programming to work.

John

Dear John,

There are and always will be barriers to market participation for the extreme poor. This question of whether MSD really benefits the most marginalized is the latest of the long-standing economic growth versus poverty reduction arguments that have persisted through the decades in the halls of development practitioners. While there are valid points on both sides, I don't think this is an either/or situation. Per the World Bank, 'Growth in agriculture remains in general two to three times more effective at reducing poverty than an equivalent amount of growth generated in other sectors. This holds irrespective of the empirical method or the poverty metric used to estimate this' (Christiaensen and Martin, 2018). It makes sense, given that most of the world's poor work in agriculture. It also draws some very clear connections between economic growth and poverty reduction development objectives.

Advancing inclusive economic growth through MSD can improve the availability of goods and services and make them more affordable through productivity and other efficiency gains. Even subsistence households that don't engage in commercial production are net buyers of goods and services from the market (however informal that market may be). I suspect that oft-discussed 'bottom of the pyramid' business models are ultimately

better at reaching consumers than at engaging producers, given the persistent challenges of aggregation and economies of scale. Taken in aggregate, these types of consumer-facing advances catalysed by MSD could still provide a strong benefit at the household level by driving availability, quality, and affordability of consumer goods and services to allow the extremely poor better options within their purchasing power. Improved availability of services that save travel costs to market alone could be rather significant, particularly for female household members.

If we zoom out, it can be argued that governance interventions are the most appropriate pairing with MSD to really benefit the poorest. The market can never be their safety net or fully substitute for basic services that should be publicly provided. Yet, a competitive, resilient, and growing economy is what feeds the domestic resource mobilization required to allow governments rather than donors to provide social protection and basic services such as health and education that support poverty reduction over the long term. Public investment in infrastructure can expand the capacity of businesses to reach more marginalized populations and still make a profit. Virtuous cycles can ensue, with appropriate safety rails. In other words, we must acknowledge that the market cannot solve everything, yet that does not mean that donors should engage in everything either. We need to strategically pull the levers that can support extreme poverty reduction in another way.

If we're assuming a capitalist environment, this public-private

complementarity is exactly what is required to really reduce extreme poverty, as by definition there will be losers in capitalism. The question to me is: how far can we tweak the market system to reduce the number of losers and the depth of that loss? And once we reach that boundary, how have we leveraged the interconnections from one system to other systems that can protect, sustain, and ultimately give the extreme poor the foundation to try again and to move out of poverty?

We also need to be realistic about the level of resources available for programming. Official development assistance is limited. MSD, by leveraging the resources of market actors, can move exponentially greater investment in ways to benefit the extreme poor. As donors, implementers, the private sector, and researchers, we need to continue to search for ways to drive collective action that will result in a greater impact compared with what our individual projects can do alone. To borrow from a wise friend, we need to get markets to value the poor and other marginalized people. MSD pursues this idea, knowing that, if not, the pathways out of poverty that we build on the backs of micro-enterprises and fragile market linkages will be vulnerable to both market forces greater than any donor and the inevitable shocks and stresses in the market, the community, and the household.

Kristin

Dear Kristin,
In USAID's work developing market systems, we have the greatest impact

on poverty reduction when we take explicit and overt steps to improve the ability of poor communities and households to participate in commercial markets and then assist them to build linkages with market actors. This will no doubt occur spontaneously on occasion but usually needs dedicated and focused effort. We need to support building the capacity and agency of marginalized households, support community-based micro-enterprises to extend input and output market networks, use creative methods such as peer learning to make farmers aware of new inputs and methods and convince them to adopt them, facilitate access to credit and smart subsidies for even the poorest households take advantage of new technologies, and help smallholders organize for product aggregation to attract buyers.

USAID Ethiopia's Graduation with Resilience to Achieve Sustainable Development (GRAD) is a good example of comprehensive programming, including development of input and output market opportunities for extremely poor and marginalized households, leading to resilient graduation from poverty and food insecurity (Social Impact, Inc., 2017). There have been numerous successful cases of smallholder producer groups engaging with external markets, although inclusion of extremely poor and marginalized populations is not ensured (Mwambi et al., 2020), particularly in decision-making positions.

In an environment of limited resources and tough choices, I concede that MSD can appear to represent a more sensible investment than interventions directly in support of poor,

rural households. However, while poor farmers may derive some benefits from MSD, those benefits are never transformational. In most cases, this approach increases wage gaps and economic inequities. Marginalized households remain poor even if food prices may be lower. Markets cannot substitute for the safety nets that these communities increasingly depend on.

On the other hand, a well-conceived sequence of interventions directly supporting marginalized households can 'graduate' them into economic self-sufficiency. The cost to do so may be considerable but the benefits ultimately far exceed the costs. Such households – and the evidence for this is clear – will contribute to the local economy but will also be productive participants in larger market systems.

Graduating households will no longer require safety net support on an ongoing basis and will be far more resilient to all but the most severe shocks, reducing the need for humanitarian assistance. These households are more likely to send their children to school and become involved in civil society. In sum, the extra money spent directly supporting poor and marginalized households is a wise investment with impacts that extend far beyond the direct beneficiaries.

John

Resources

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