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CORPORATE-LEVEL EVALUATION ON IFAD'S ENGAGEMENT IN PRO-POOR VALUE CHAIN DEVELOPMENT

A value chain is a set of enterprises and stakeholders involved in bringing a product from the initial input supply stage, through the various phases of production, to its final market destination. Value chains are an increasingly important feature of food systems and the rural landscape. The “governance” of a value chain – namely, the business linkages, relationships and distribution of power among value chain actors – has an important influence on the participation and “voice” of small producers in the chain and in processes for setting standards and agreeing on contractual obligations and prices.

Following similar trends in other international development organizations, **IFAD's value chain portfolio has seen marked growth** in the past decade. In terms of number of projects approved, the proportion of value chain-relevant projects increased from 41.5 per cent between 2007 and 2009, to 72.3 per cent between 2016 and 2018, while the volume of loans approved increased from 50 to 81 per cent in the same period.

Despite the size of its investments, IFAD has **no corporate strategy on value chain development**. IFAD has prepared several toolkits and knowledge products that provide useful guidance on different aspects of value chain development. However, there is no overarching conceptual framework defining what it means to develop value chains in a pro-poor manner and how the Organization needs to evolve to achieve that. The absence of a more systematic corporate approach to value chain development, combined with heterogeneous situations faced in different countries and projects, has led to variable interpretations and inconsistent approaches.

The concept of a value chain was relatively new to IFAD, and the technical capacity of the Organization was stretched to support a rapidly growing value chain portfolio. Moreover, limited attention was given to improving the skills and competences of government staff who are in charge of managing IFAD-funded projects day to day.

Project design has improved but analytical gaps remain. In many cases, IFAD adopted a step-by-step process, focusing first on primary production, followed by access to markets, and finally value chain development. Mid-term reviews often corrected design weaknesses, but only after valuable time and resources were expended. Projects with better value chain analysis at design (e.g. in Rwanda, Senegal, São Tomé and Príncipe) were based on previous experience in a given geographic area and on specific commodities, through which IFAD and the government had acquired knowledge of the area and the target groups.

Few designs were supported by market intelligence to guide the choice of commodities and the steps within the value chain that needed to be prioritized to achieve pro-poor outcomes. **There was little emphasis on market and price risks, or on market information systems and technology** that could reduce transaction costs and enhance transparency and would help small producers make decisions – for example, on what, where and when to sell.

Many of the value chains supported by IFAD projects are **buyer-driven value chains**, in which suppliers work to the parameters set by market demand, including strict requirements for quality, quantity and delivery timelines, plus

compliance with various standards (sanitary, phytosanitary, environmental, social). In most cases, these arrangements brought benefits to small producers, such as knowledge and resources, and more secure markets and income. However, they did not substantially alter the way the chain was governed, and producers continued to face risks and have a weak bargaining position relative to agribusinesses.

More far-reaching pro-poor effects were achieved when projects had supported “**multi-stakeholder platforms**” and when these were functional (e.g. in Nepal, Niger, Senegal and, in part, Ghana and Uganda). A multi-stakeholder platform is a consultation forum which brings together stakeholders linked to a value chain (e.g. input providers, producers, processors, distributors) to improve communication, build trust and establish commercial relationships. One typical problem in developing pro-poor value chains is the lack of transparency in setting prices, conditions for transactions and standards for products. This increases the risk of exploitation of small-scale producers and discourages many stakeholders from entering into agreements that could be mutually advantageous.

The mechanisms through which value chain participation benefited the poor included: (i) diversification to higher-value products (such as vegetable crops or fruits, as in China) which were expected to lead to profit increases for farmers; (ii) price mechanisms, such as *agreement on a fixed price* to reduce risks of price fluctuation for producers, and *price premia* linked to product characteristics (e.g. organically grown coconuts in Viet Nam); (iii) improvements in producers’ capacity to negotiate output prices (e.g. in El Salvador and Honduras); (iv) engagement of producer organizations in processing (thus capturing a higher portion of the final market prices); and, in some cases, (v) employment generation (e.g. in Bosnia and Herzegovina, El Salvador, Honduras, Rwanda).

Overall, projects have been effective at providing basic financial services to producers through community-level groups and microfinance institutions, but less successful in securing finance for small and medium enterprises and producer organizations. In part this was due to offering **conventional rural finance services** rather than instruments specific to value chain financing. Besides limiting value chain development, this frequently meant that producer organizations could not offer prompt payment to their members, thus creating incentives for side-selling and making it difficult to fulfill supply agreements with buyers.

Overall, the evidence indicates that it is possible to reach out to poor and very poor households and groups through value chain development. **Factors contributing to effective outreach to poorer small-scale producers** included: (i) selecting commodities that can be produced with little land or capital investment and that require intensive, unskilled labour inputs; (ii) enforcing pro-poor requirements for agribusinesses as a condition to obtain project support; and (iii) undertaking community-based mobilization of producer groups, combined with activities focusing on linkages with processors and traders.

Key recommendations

- **Prepare a corporate strategy for IFAD’s support to value chain development.** The strategy should harmonize with other relevant operational policies of IFAD, lay out a conceptual framework for pro-poor value chain development, and clarify IFAD’s overall objectives and principles of engagement as well as the resources required.
- **Adopt a “programmatic” approach to value chain development** with long-term engagement and multiple-phase support. Project designs should systematically assess the degree of preparedness for value chain support, taking into account the local context and previous experience of the government, IFAD and other partners and, based on this, identify priorities and approaches for value chain strengthening.
- **Promote outreach to poor and very poor groups.** Project designs should lay out a theory of change explaining how benefits will reach very poor groups (including through wage employment generation), and identify the major barriers and how to overcome them.
- **Promote inclusive value chain governance and policy and regulatory environment,** by establishing or strengthening multi-stakeholder platforms and inter-professional associations that provide small producers and other value chain stakeholders with: (i) information on prices and markets; (ii) a venue for dispute resolution; and (iii) a voice in discussing the policy and regulatory systems.
- **Sharpen approaches to value chain financing.** IFAD needs to collaborate with organizations and impact investors with a proven record in this area. A specific action plan on value chain financing could be based on a review of experiences in this area in both borrowing and non-borrowing member countries.
- **Develop the capacity of project management teams and IFAD staff** through partnerships with international agencies and service providers that specialize in building capacity for value chain development, and through peer-mentoring between project management teams to share experiences and insights.

Fewer pro-poor results occurred when private operators were left to select the small producers who would receive project benefits, and when there was no clear linkage with other project components such as community development and production enhancement. The evaluation shows that trickle-down effects to poorer groups from supporting more entrepreneurial farmers and agribusinesses cannot be taken for granted: these effects need to be supported by project interventions.

Further information:

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