SPOTLIGHT 3

Linking Economic Inclusion and Markets for the Poorest

While economic inclusion programs typically seek to address the multiple constraints that poor households confront, it is increasingly important for these programs to address constraints beyond the household. These include underlying factors that constrain opportunities for local economic growth, such as proximity to physical markets, regional market depth, access to connective infrastructure, and production. Strengthening links to markets for inputs, labor, goods, and services is important to alleviate spatial-based poverty and to increase income-generating opportunities for the extreme poor and vulnerable. Although this is an area of considerable interest, it is a relatively new frontier for many programs featured in this review.

As many of the world's extreme poor live in isolated, rural localities where access to markets is limited, there is an immediate interest in understanding rural market dynamics and strategies to link households to local, regional, and international markets. A vibrant rural sector requires not only that stakeholders support productive markets but also that they prioritize small rural producers, resilience building, and the enhancement of the economic and productive capacity of the rural poor (FAO 2017). Such efforts entail working with key market players to improve interaction and negotiation with informal workers, producers, and entrepreneurs. Furthermore, to develop a thriving rural sector, it is important to address the challenges and opportunities posed by migration and rural development. Rural households and communities can maximize the benefits of migration by enhancing and diversifying rural employment opportunities, especially for women and youths; helping the poor to better manage risks; and leveraging remittances for investments in the rural sector.

While economic inclusion programs have a strong rural focus, the importance of urban market links is coming into focus. Due to limited labor demand and rising informality in rural areas, there has been an increase in migration to urban centers, presenting the poorest with both opportunities and challenges. By 2045, the number of people living in cities worldwide will increase 1.5 times, to 6 billion. Demand for food will grow by an estimated 70 percent from 2010 to 2050, and 83 percent of that growth is expected to be in urban markets (World Bank 2019). In urban areas, it is especially important to look beyond household-level constraints and link economic inclusion interventions with economic sectors and processes that present economic growth opportunities. This is especially true among urban agricultural markets, where opportunities are emerging to increase off-the-farm employment in agribusiness.

Emerging Practices

Given that training and coaching play critical roles in economic inclusion programs, these initiatives are well positioned to empower the beneficiaries of them to engage in local markets, manage risks, and build assets. Because these programs are designed to support people facing high levels of vulnerability, economic inclusion interventions often aim to strengthen resilience. Such efforts include helping households stabilize consumption and income, develop insurance mechanisms, and protect key assets. For those people with relativity low levels of vulnerability, economic inclusion interventions aim to promote opportunity, either through income expansion or asset growth.

Economic inclusion programs that enhance market access follow a mix of market integration strategies (appendix E). The Partnership for Economic Inclusion (PEI) Landscape Survey 2020 reveals that programs facilitate access to markets by developing producer organizations (51 percent) and provide links to service providers (67 percent) and agricultural extension services (65 percent). In addition, as further evidenced in the 2020 survey, programs facilitate access to improved inputs (65 percent), technology (58 percent), and capital (39 percent). Several key interventions that address the considerable challenges faced in linking extremely poor and vulnerable households to markets are outlined below. Each intervention provides activities that can strengthen both resilience and opportunity.

Linking the extreme poor to cooperatives and producer networks

Poor rural producers very often lack the capacity, or the level of organization needed, to access formal markets in a structured way. Operating as part of a group (for example, producer alliances, self-help groups, farmer groups, and so forth) can help overcome these constraints and enable smallholder farmers to gain access to goods and services previously unavailable. For example, producer alliances and cooperatives are common tools for improving the knowledge and skills of their members in a range of activities as well as improving access to information, helping members access lump sums of cash through savings and/or credit, and linking producers to wider commercial networks. Producers operating in groups have more negotiating power and access to producer-to-producer links that involve longer-term cooperative arrangements among firms that are built on interdependence, trust, and resource pooling to jointly accomplish common goals (USAID, FHI 360, and World Vision 2017). In Argentina, for example, the Socio-Economic Inclusion in Rural Areas Project promotes stronger formal group organization by supporting (1) small family producers to increase their organizational capacity and reach a minimum level of formalization and (2) groups of small family producers with preexisting market links that could be further developed as sustainable formal links through productive alliances. Although community networks are likely weaker in urban contexts, some programs have shown success working in urban centers and with urban communities (for example, in Bangladesh, Ethiopia, Sierra Leone, and Uganda).

Public works development

Public works programs are important avenues for income support and short-term employment and are featured across different economic inclusion programs documented in the survey. Embedded in economic inclusion programs, public works programs have the potential to address different priorities, including temporary employment and the development of community infrastructure. Better community infrastructure (for example, roads and irrigation systems) can increase market output, lower transaction costs, and improve market access, thereby raising the profitability of small producers and enterprises. Furthermore, the additional income from public works programs enables households to accumulate savings, which can ultimately be used for more productive investments. Income transfers that are regular and predictable preform an insurance role, thus altering participants’ risk management capacity and willingness to take risks (Gehrke and Hartwig 2015). While the impacts of public works programs are heavily debated and their operation requires a great deal of capacity, they provide an avenue for linking household and community aspects of development. In Uganda, the Third Northern Uganda Social Action Fund aims to provide effective income support through labor-intensive public works (LIPWs) and livelihood investment support to build the resilience of poor and vulnerable rural households. The LIPWs include various labor-intensive subprojects to create community assets, including roads, other paved areas, and market shelters, to increase the accessibility of markets and social services. In the urban context, the Urban Youth Employment Project for Papua New Guinea incorporates an LIPW component that provides youth with temporary employment opportunities focused on simple road maintenance, cleaning, and environmental protection activities, including vegetation control and drain cleaning.

Value chain development

Value chain development involves strengthening the product-to-market systems. Value chains contain multiple stages, from preparation and distribution of primary inputs to primary production, various processing steps, packaging, distribution, marketing, retail, and ultimately disposal of the product. The objective of value chain programming is to increase incentives for the links to improve performance, productivity, and trade and, ultimately, provide poverty alleviation and economic opportunities for poor producers. Value chain and economic inclusion interventions go hand in hand, and their symbiosis can help create sustainability. Demand-side interventions stimulate production, which generates job and earning opportunities for the workforce, while supply-side interventions provide the labor that firms and other actors in the value chain require, Box S3.1 illustrates an example.

BOX S3.1 Economic Inclusion in the Rice Value Chain: A Pilot Project in Côte d'Ivoire

Economic opportunities for a large and diverse population in the agricultural sector can be created through on- and off-the-farm input provision, mechanization services, transport, processing, and distribution. The Jobs Group of the World Bank, in partnership with the Côte d'Ivoire Productive Social Safety Net (PSSN) Project, is piloting economic inclusion in value chains through rice value chains.

PSSN provides beneficiaries quarterly cash transfers and offers economic inclusion activities, including formation of savings groups, entrepreneurship training, the provision of small business grants, and coaching. For the pilot, smallholder farmers, small- to medium-sized mills, and a national microfinance institution are collaborating under an agreement: smallholders receive inputs on credit from the financial institution based on having a contract with the mill to deliver a specified amount of rice of a certain quality and at a certain price at harvest. The mill also receives working capital credit from the microfinance institution to buy the rice at harvest and hires a liaison agent to provide basic extension services and maintain regular contact with farmers. The World Bank supports the platform by facilitating exchange between partners in different localities through local and national coordinators. It also provides technical assistance to mills and pays for an agricultural liaison officer in the microfinance institution to reduce transaction costs.

BOX S3.2 **Strengthening Environmental and Natural Resource Links**

Economic inclusion programs that protect and ensure the sustainable management of natural resources not only address pressing environmental concerns but also help strengthen both resilience and opportunity. Often, these programs also build the capacity of multiple stakeholders (including governments, households, communities, and the private sector) to improve planning for more sustainable use of natural resources in different geographic environments.

A number of these programs support investments in infrastructure and technology to spur the development of sectors that have the potential to create environmental as well as economic value, for example, marine fishing and agroforestry. Many programs also support the development of value chains that are protective of the environment and that create alternative income-generating opportunities for resource-dependent communities, for example, value chains of nontimber forest products, such as medicinal plants, bamboo, and honey production. As an example, the Ethiopia Resilient Landscapes and Livelihoods Project (RLLP) aims to improve climate resilience and land productivity and increase access to diversified livelihood activities in selected rural watersheds. It is government-led and relies on local community structures for program delivery. Building on lessons learned through implementation of the World Bank's Sustainable Land Management Project, the RLLP will complement core investments in watershed restoration with a set of associated activities supporting sustainable livelihoods. Activities include funding community-level green infrastructure, introducing climate-smart agriculture (CSA), improving land tenure, and encouraging new income-generating activities through community groups and links to value chains.

Natural resource management

The risk of climate change and other environmental shocks creates barriers to market access for the extreme poor. The integration of climate and disaster risk considerations in the planning and design of economic inclusion programs will help prevent poor and vulnerable households from falling deeper in poverty, reduce their overall exposure to potential risk, and contribute to long-term adaptation to climate change. Sustainable natural resource management interventions can provide much-needed employment opportunities for vulnerable populations as well as maintain and enhance productivity of households' and communities' agricultural, forestry, and fisheries assets. Communities can receive income support through land rehabilitation and forest work schemes. In addition, landscape, coastal, and fisheries programs can be scaled up further to create jobs and support livelihoods and market access. Activities include watershed and landscape management, weather-based index insurance, cash transfers conditioned on the adoption of climate-smart agriculture (CSA), and improved climate-related knowledge provision through extension services (World Bank 2015). See box S3.2 for more on the role of the environment and natural resources in economic inclusion.

Challenges in Linking to Markets

Barriers to market links need to be identified and addressed to successfully integrate beneficiaries. Economic inclusion programs have an advantage as they already address multiple constraints across the individual, household, community, local economy, and institutional levels. Going further, careful analysis of the structures of informality—access to finance, the regulatory regime, cultural context, gender dimensions, and so forth—will be critical.

Across the individual, household, and community levels, the extreme poor face many constraints to participating in markets. Some of these include limited capacity and resources, small-scale production, strong risk aversion, limited mobility, informal rules and norms, limited knowledge of markets, poor management skills, and lack of empowerment. Extremely poor women face added constraints in interacting in markets, including the risk of physical, sexual, and other gender-based violence; inadequate legal protection or enforcement of existing laws; traditional gender roles and expectations; and lack of control over resources (in particular, property) (USAID, FHI 360, and World Vision 2017). In mitigating such constraints, in Peru, Haku Wiñay encourages the development of inclusive business groups consisting of approximately a dozen participants who come together for common productive activities, the commercialization of agricultural products, or both. Groups receive special training and support to launch their activities—usually in textiles and ceramic crafts, baking and gastronomy, rural tourism, dairy products and byproducts, small animal rearing for sale, fish farming, and cattle fattening.

At the local economy level, information asymmetries prevail, leading to high transaction costs. Improving market productivity and earnings requires an in-depth understanding of the constraints and opportunities in a market system. Market assessments provide programs with insight on the market viability of specific interventions as well as the competitive landscape for beneficiaries (CGAP 2012). The Cash Transfer and Economic Inclusion Program in Egypt has launched a rapid market assessment to identify demand- and supply-side constraints as well as available business opportunities. With this information and previous research, the Forsa program has begun to successfully map key sectors and economic activities, value chains, clusters, and partners for collaboration.

The institutional and policy environment is especially important in linking markets to the extreme poor. Multidimensional programs require careful coordination and coherence across ministries, at different levels of government, and among nongovernment partners. The lack of institutional clarity, roles, and responsibilities among ministries and local authorities may challenge the provision of market services, trading, certification, and revenue programs. Furthermore, coordination constraints among market actors (other enterprises, buyers, intermediaries, and sellers) limit access to high-value markets and service providers. Strong, mutually beneficial relationships among market actors facilitate the transfer of information, skills, and services. As an example, Haku Wiñay, either directly or in collaboration with municipalities, encourages small-scale opportunities for trade, such as weekly fairs or festivals targeting certain products, where participants sell their products in a less daunting environment than traditional markets.

Furthermore, government policies and regulations play a key role in shaping the market environment. An inappropriate policy and regulatory framework can lead to the distortion of market efficiency, increasing costs for participants and impeding the development of the market system. Furthermore, market systems respond to developments in the macroeconomy and can be subject to considerable macroeconomic volatility. Changes in exchange rates, real supply, and international monetary reserves can have severe impacts on commodity prices. The added level of insecurity in international and domestic markets can have severe consequences on local markets and small producers. Macroeconomic factors, including climate factors, should be considered for business cycle analysis and public risk management schemes for the stabilization of markets (de Winne and Peersman 2016).

Future Directions

Although market links are well documented in the literature, this is relatively new territory for economic inclusion programming. Economic inclusion programs provide a comprehensive strategy to address the multiple constraints that the extreme poor face in accessing productive markets. Linking economic inclusion programs to markets is complex and multilayered and requires a holistic view in analysis, implementation, and coordination efforts. Moving forward, it will be important to understand which constraints can be addressed in the context of economic inclusion programs and which will require greater coordination across the government policy space.

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