Executive Summary of Evaluation

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<th>Name of Evaluation</th>
<th>Poverty Literature Review Summary: Supply Chain Linkages (FAST, EST, SCI) and Poverty Reduction¹</th>
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Background

This review, based on secondary review of program and project evaluation, case studies and findings from the IFC Jobs Study, highlights that value chain initiatives in general and training programs for SMEs and farmers impact poverty both directly and indirectly. SMEs are the biggest contributors to formal employment and strengthening them can have a positive effect on quantity and quality of jobs, especially for the poor. In terms of indirect channels, strengthening supply chain linkages, and specifically, providing training can assist in formalizing SME’s and increasing their ability to participate in global value chains. For agriculture value chains, this expanded market access can have a significant impact on farmer incomes. Further, these initiatives will result in increasing productivity of these firms and create growth. Strengthening supply chains also improves access of the poor to products and services. The Sustainable Business Advisory business line provides several products for strengthening supply chain linkages including SCI, EST and FAST. While the review of select products suggests a poverty impact, there have been few evaluations or tracking of income changes to identify the poverty reduction effects. This also points to the need for further work on development and/or adoption of a new set of indicators and methodology.

Objectives

This note summarizes a literature review conducted by IFC on identifying the transmission links of advisory operations in supply chain linkages and Farmer & SME Training (FAST) to poverty and economic growth. This exercise was undertaken as part of IFC’s Poverty Action Plan, to better understand how IFC operations in specific sectors across its investment and advisory operations result in eradicating poverty and boosting shared prosperity.

Local supply chain development projects in Sustainable Business Advisory (SBA) fall under three product offerings: Sustainable Community Investment (SCI); Environmental, Social and Trade Standards (EST) and Farmer and SME

¹ This note has been summarized from the poverty literature reviews conducted for IFC by Karen Isahakyan, Consultant for J.E. Austin, and Sebastian Veit, Business and Strategy Consultant. The note is available on IFC’s poverty webpage: http://ifcnet.ifc.org/ifcint/deveffectiveness.nsf/Content/home
Training (FAST). The EST portfolio includes 34 active projects, FAST has 59 projects, and SCI: 19 projects\(^2\). Majority of SCI products are in Latin America and the Caribbean (LAC) region, while FAST products have the greatest share in Sub-Saharan Africa (SSA).

**Analysis**

**Why supply chain development is good for the poor?**

Supply chain management has become an area of increased focus for large companies as they address competitive pressures arising from new environmental regulations, rising energy costs, work place standards, and other consumer and government demands. This has led many transnational corporations (TNCs) to incorporate eligibility requirements based on sustainability standards into contractual relationships with local suppliers.

Many of these local suppliers and value chains incorporate small and medium enterprises (SMEs) and farmers (in agribusiness value chains) that lack the necessary financial and technical skills to improve social and environmental management and performance to meet the demand of the TNCs. Moreover, in developing countries, agricultural value chains are often fragmented, lack investment, fail to include vulnerable groups and are missing critical linkages. *Considering the emphasis on supply chains in the private sector, and the high engagement of the absolute and relative poor in these chains, there has been increasing focus on supply chain development.* Many donors and multilateral organizations have stepped in to provide technical assistance or financial services for small suppliers in order to improve supplier business performance and credit risk. These interventions are intended to involve the poor in the supply chain networks and increase their incomes.

**Indirect effects of supply chain linkages and FAST through economic growth**

According to the report "Creating Value for All: Strategies for Doing Business with the Poor\(^3\), business models that include the poor have them at various points in the value chain: on the demand side as clients and customers, and on the supply side as employees, producers and business owners. The benefits from these models go beyond immediate profits and higher incomes to include *driving innovations, accessing new markets and strengthening supply chains*. Development of medium and large agribusiness enterprises will have an indirect effect on the poor through generation of new employment opportunities. At the same time, agro-enterprise development will increase demand for agricultural goods which are likely to be produced by poor commercialized farmers, thereby generating an income generating effect.\(^4\)

**Formalizing SME’s:** Informal economies can be dominant in low-income countries. However, SMEs play a sizable role in the economies. Informality creates costs and inefficiencies for a competitive private sector- and if informality has created inefficiencies related to operating “underground,” then the transformation of informal firms into registered SMEs can boost economic growth. And to the extent that supply chain linkage programs can assist in formalizing SME’s, they contribute indirectly to growth.

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**Supporting SME growth through training:** Participation in a training program draws economically important and statistically significant changes in the probability that individuals open a new business or expand an existing one. Teaching entrepreneurs the value of capital investment encourages them to change business practices, allowing for greater innovation and making personal investments in the business. The recently launched IFC Jobs Study on ‘Assessing Private Sector Contributions to Job Creation and Poverty Reduction’ highlights the lower likelihood of SME’s to invest in training and the need for supporting such training and increasing awareness of its benefits. Working with larger firms also results in improving supplier skills- however, being able to participate in the supply chain in turn depends on ability to meet anchor firm requirements, which again points to the need for training.5

**Integrating SME’s in global value chains:** The globalization of value chains constitutes a major challenge for small scale enterprises accustomed to serving local and national markets. An UNCTAD study conducted in five countries indicates that transnational corporations (TNCs), with a few exceptions, are reluctant to cooperate with the SME sector because of shortcomings such as lack of quality and poor reliability6. The availability and quality of domestic suppliers is a key determinant to participation in TNCs global value chains. Formalized training programs enhancing managerial skills and resulting in potential compliance to international industry standards can lead to increased attractiveness and higher credibility of SMEs within global and local supply chains of TNCs. Supply chain integration and participation further enhances growth prospects for SMEs and strengthens SMEs ability to grow.

**Direct effects on poverty of supply chain linkages**

**Creating and expanding market access for farmers:** Small holder farmers among these supply chains comprise the relatively poorer sections within the Base of Pyramid. Goletti (2005) states that for poor farmers supplying agricultural commodities, strengthening of value chain linkages improves market access and, through better coordination and cooperative relationships with buyers, increases their income security.

**Providing increased and improved products among poor:** Prahalad and Hammond (2002) argue that consumers at the bottom of the pyramid pay much higher prices for most things than middle class consumers do mostly due to a lack of access to cheaper channels and better products. Capacity building enables farmers and SMEs to participate in the supply chains of multi-national companies and to become not only the channels for products but local market innovators also.

**Supporting job creation:** SMEs represent over two-thirds of formal employment. In low-income countries, this figure tends to be smaller, especially where the informal sector is large; but it is still significant. Therefore, capacity building and enhancing managerial capacity and overall entrepreneurial spirit can lead to growth of formalized business operations. This in turn can have positive effects on the companies’ growth and performance - especially on sales, profit and productivity- and thus arguably on job creation and job security.

Another aspect of the impact of IFC interventions in this space can be seen in wage effects due to a higher level of education and innovation. Modern outsourcing strategies, like business process outsourcing (BPO) for example, create sustainable jobs that can generate step-function income improvement for those at the base of the pyramid. These BPO activities aim to provide formal employment or supplementary income to individuals in low income areas of cities and rural towns with limited alternative employment opportunities.

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The IFC Jobs Study has highlighted the extent and nature of *indirect job creation* among the value chains of larger, sometimes capital intensive firms. The multipliers range from 3 to 25. Notwithstanding the shortcomings of these forms of ratios and their context specific nature, they do reveal the extent of job creation in the supply and distribution chains. *Hence, services which strengthen these linkages will tend to maximize job creation.*

**Conclusions and Recommendations**

Strengthening supply chain linkages is important for poverty eradication given the extent of participation of SME’s and farmers in these chains. Providing training to these firms and firms, and support for meeting certifiable standards allows them to formalize, expand their market access, and participate in global value chains thereby increasing productivity and income. Further, SME’s are the source of a significant share of jobs, especially in low income countries. Therefore, initiatives to strengthen these firms can likely have a positive impact on job creation. These findings also highlight the potential for IFC in comprehensively assessing the supply and distribution chains which exist around lead firms and strengthening them by collaborative investment and advisory solutions.

**Figure 1: Transmission Links to Poverty Eradication and Boosting Shared Prosperity**
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