

# Household asset endowments and implications for inclusive value chains

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# What's ahead?

- Conceptualizing development and inclusive value chain development
- Asset based approach to design and assessment of inclusive VCD
- Evidence from case study in Nicaragua on certified coffee
- Conclusions



# Conceptualizing development

- Income growth: flawed, but persistent, basis for conceptualizing development
- Sen's work expanded the debate to include "functionings" & "capabilities", but limited uptake in dev programming
- Sustainable livelihoods framework: focus on vulnerability of poor: assets at core, but markets poorly integrated
- Assets "are not simply resources that people use to build livelihoods: they empower them, giving them the capability and agency" (Bebbington 1999).
- Dorward's (2009): hanging on, stepping up, stepping out

# Conceptualizing inclusive value chains

Recent examples:

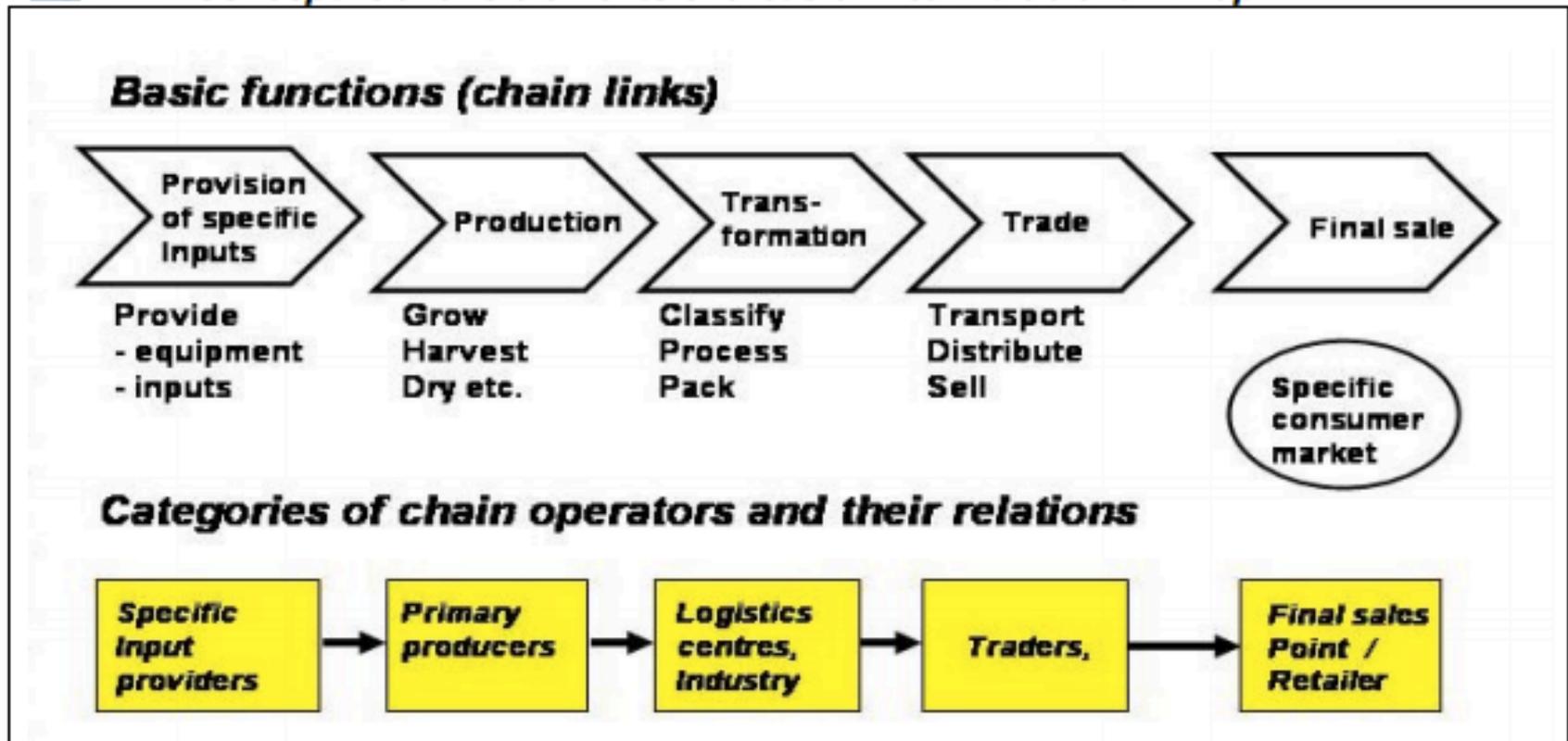
- “Inclusive business models... circumvent existing market failures...**to successfully integrate the poor**, either on the demand side... or supply side...” (GIZ 2013)
- “Inclusiveness is defined in our report as **overcoming participation constraints** for SMEs and facilitating access for LIDCs” (OECD 2015)
- ...an inclusive market system is one that **includes large numbers of low-income households**. (USAID 2012)

Questions remain:

- What does ‘successfully integrate’ mean?
- How does participation lead to poverty reduction?
- What if “large numbers of low-income hh” already participate?

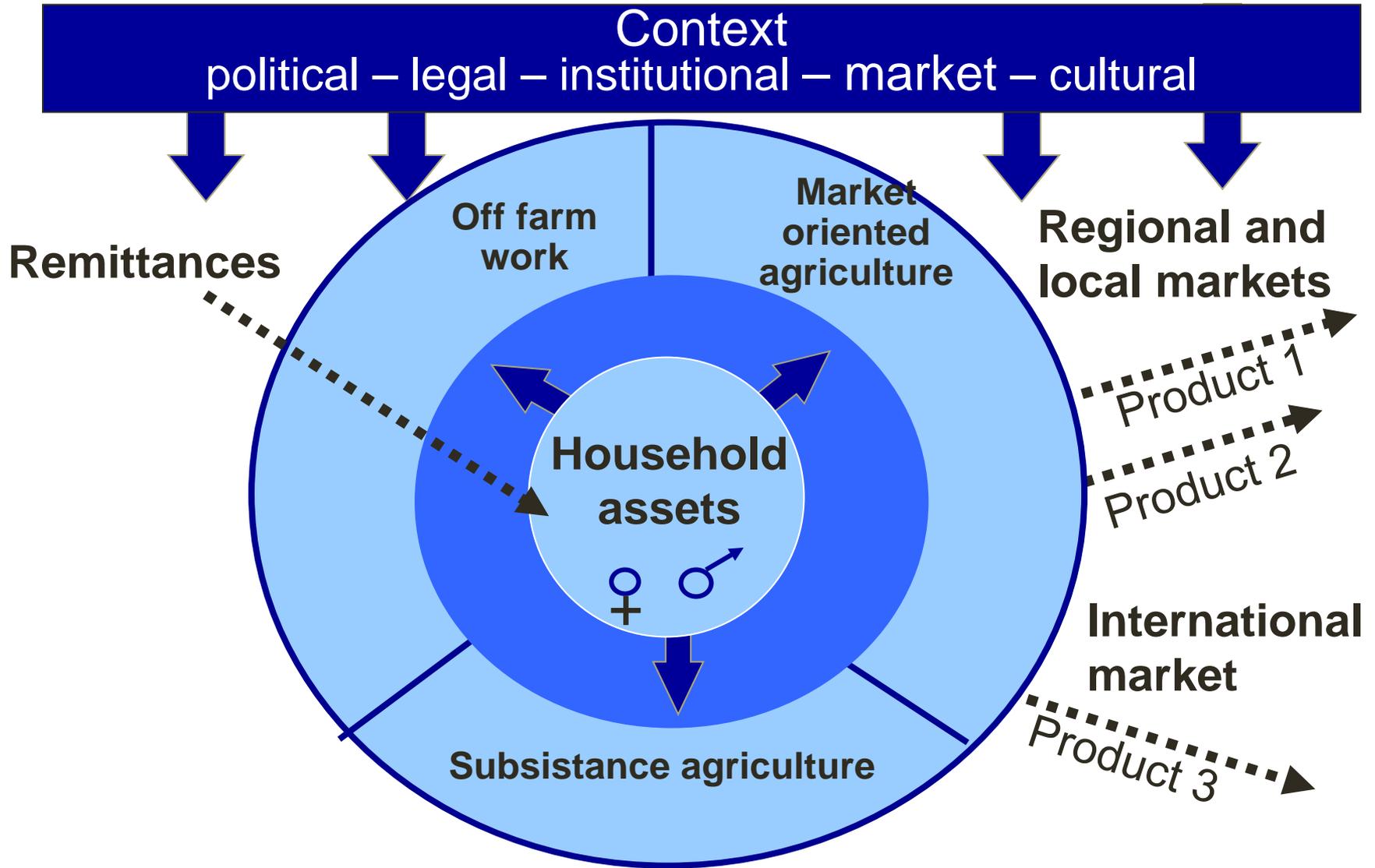
# Inclusive VCD based on simple linear models

**Box 2.2 - Concept: Generic elements of a basic linear value chain map**



Source: own design

# I-VCD from a household perspective



To what extent do rural households build their asset endowments and strengthen their livelihoods through VCD?

# Asset based approach to VCD

Household level: asset endowments are indicative of household capacity to respond to market opportunities & mitigate external shocks

Enterprise level: asset stocks and flows are indicative of positioning in the market, performance and viability

## Key considerations

- Variation across households: asset levels, income flows, and livelihood strategies
- Thresholds: smallholders above a certain asset endowment more likely to benefit from participation in VCD
- Feedback loops: positive feedback loops (where the building of one asset leads to the building of others) is an indicator of broad-based and lasting impact

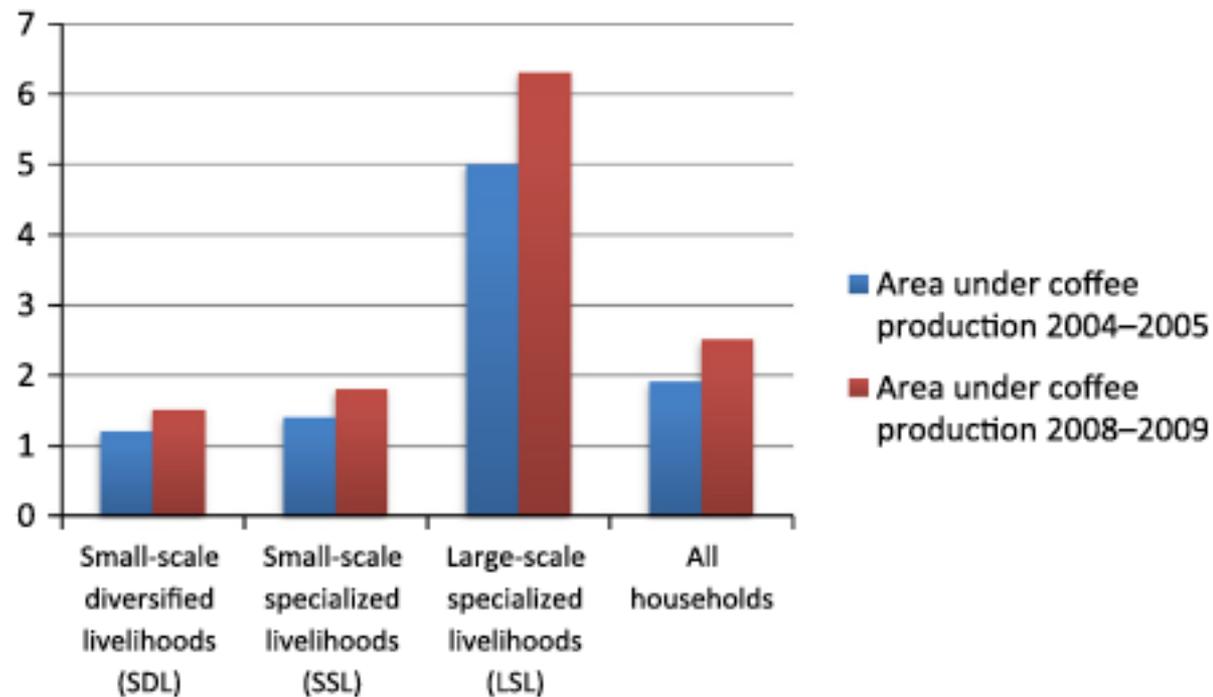
# Case study

## Nicaragua: outcome assessment

- Assessment of interventions to support smallholder participation in certified coffee
- 300 households sampled from one cooperative
- Data collected on changes in asset endowments
- Households divided into three groups, based on livelihood activities and landholdings

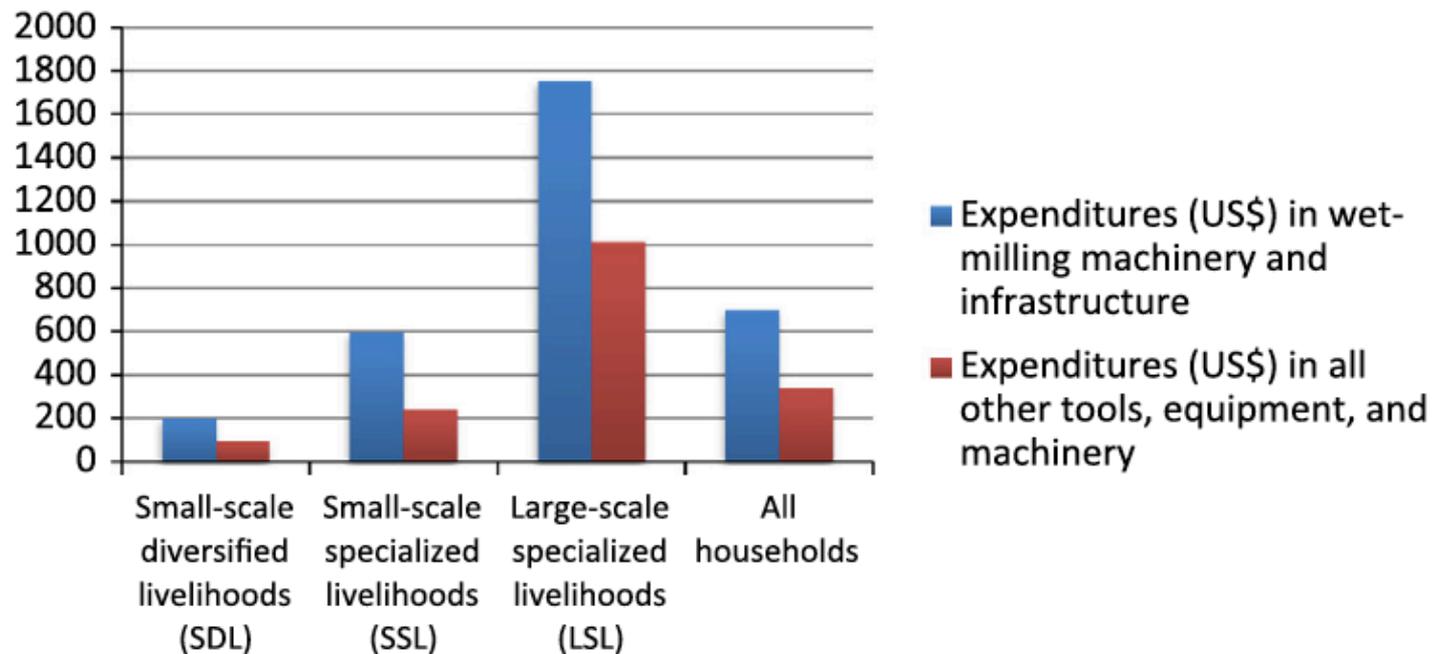


# Expansion of coffee area in Nicaragua



**Fig. 3.** Change in area (ha) under coffee production, by cluster, 2004–2005 to 2008–2009.

# Investments in physical capital – certified coffee in Nicaragua



**Fig. 4.** Purchase of tools, equipment, and machinery, by cluster, average 2005–2006 to 2008–2009.

# Bridging social capital for selling coffee – Nicaragua

**Table 3**  
Characteristics of trading relationships for coffee sold by Soppexcca members.

Buyer	Two-year average farm gate price (2007–2008 to 2008–2009)	Payment conditions in 2008–2009	Services offered in addition to coffee marketing in 2008–2009
Soppexcca	Organic: US\$136 Conventional: US\$109	Floor price (fair trade) Interest rate 1.2%/month Initial payment with short term credit (20%), partial payment upon delivery to warehouse (60%), final payment in June (20%)	Technical assistance Certification Fertilizer for purchase (delivered to farm) Short- and long-term credit (no collateral required, interest rate between 1.2% and 1.3%/month) Emergency credit Other services <sup>b</sup>
Market buyers <sup>a</sup>	Conventional: US\$97	Full payment upon delivery Price to producer: direct exporter price, minus commission	Purchase of coffee Exchange of basic food items for parchment coffee (before and after harvest) Short term credit (no interest on credit taken prior to harvest; 5%/month interest on all other credit) Flexibility in credit repayment (paying coffee debt with basic grains production)
Community-based buyers	Conventional: US\$97	Land title not required for credit Full payment upon delivery, price based on New York market price	Technical assistance Short-term credit (interest rate at 1.5–2%/month) Fertilizer for purchase (delivered to farm) Transport of coffee to warehouse
Direct exporters	Conventional: US\$99	Contract required for credit (with collateral) Final payment upon delivery, priced based on New York market price	Short-term credit (Interest rate 1.5–2%/month)

<sup>a</sup> Information based on results from 18 key informant interviews carried out on-site with buyers of coffee at the markets of Jinotega and Matagalpa in August 2009.

<sup>b</sup> For example, emergency transport to hospital, contributions to meeting funeral expenses, assessment with land tenure disputes.

# But farmers can't sell all their coffee to the co-op

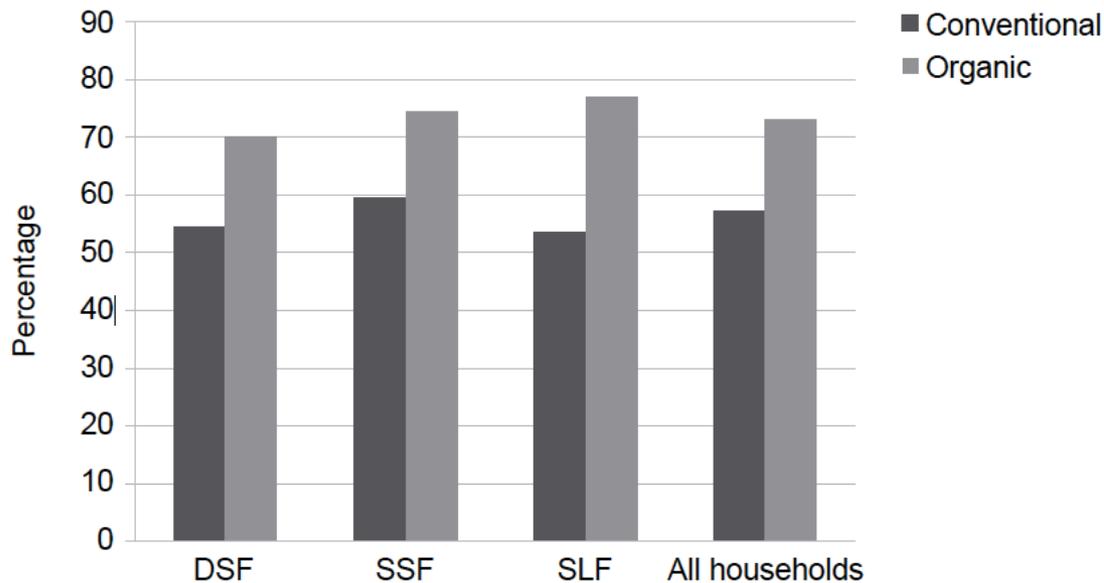


Figure 3 Percentage of coffee sold to Soppexcca, by producer type and cluster (2-year average, 2008 to 2009)

- ‘Low production and lack of money affect our ability to send our children to classes in the first months of the year’.
- ‘Had we delivered the production to the co-op, we would not have received any income because of our existing debt with Soppexcca’.
- ‘The final payment is very late, and we need to pay coffee pickers; also, our coffee is sometimes too humid to pass inspection by Soppexcca’.

# Income benefits from participation in Fairtrade coffee – Nicaragua

(US\$), avg 2007/08-2008/09

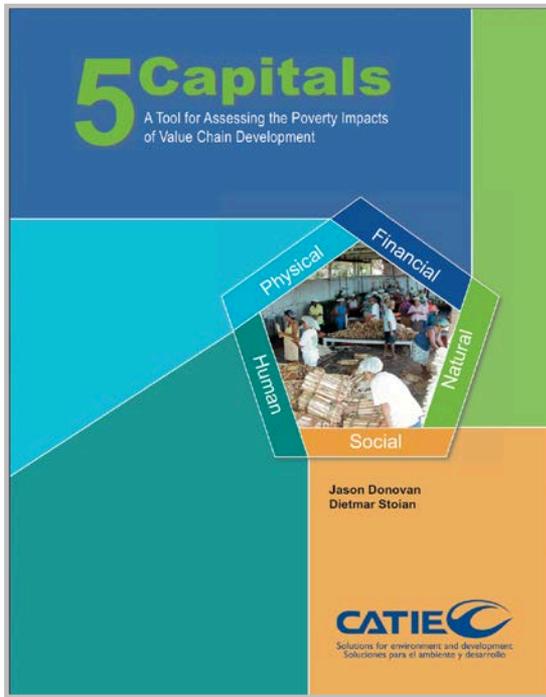
Cluster	Average total coffee production (45 kg sack green coffee)	Potential income if all coffee sold to Soppexcca <sup>a</sup>	Potential income benefit if all coffee sold to Soppexcca <sup>b</sup>	Actual income, taking into account sales to other buyers	Actual income benefit from sales to Soppexcca	% of potential income benefit captured
<i>Conventional</i>						
DSF	5.9	643	71	611	39	55
SSF	18.0	1,962	216	1,875	129	60
SLF	100.2	10,922	1,202	10,363	643	54
Total	31.3	3,412	376	3,251	215	57
<i>Organic</i>						
DSF	6.6	898	257	821	102	39
SSF	9.5	1,292	371	1,198	163	44
SLF	49.4	6,718	1,927	6,275	890	46
Total	14.0	1,904	546	1,758	232	42

# Conclusions

- VC development based on simple design – where interventions often assume that poor households:
  - have sufficient resources to benefit from their participation in value chain development
  - do not face substantial trade-offs when using these resources
  - are able to assume risks when investing capital and labor
- For households below an asset threshold, non-market interventions are needed to create the preconditions for poor households to become ‘value chain ready’
- Multi chain approaches: diversified livelihood strategies and limited asset endowments constrain the capacity of poor households to benefit from single-chain interventions

# Conclusions

- Strong cooperatives can play an important role in the VCD process, but there's an urgent need for new strategies to support them
- Better approaches for dealing with risk and complexity: joint learning required by actors in a chain and with service providers; better monitoring systems and targeted interventions
- More is needed from donors and NGOs: engage in critical analysis of the system's performance and the role of interventions in shaping outcomes and impacts
- Researchers can play a more useful role: push the debate beyond universal set of "good practices" to focus on the needs and circumstances of actors in the chain – how to shorten pathways in different contexts



# For details see...

- Blare, T. & J. Donovan. (forthcoming 2016). Building Value Chains for Newly Domesticated Indigenous Fruits: Lessons from Camu-Camu in Peru. *Renewable Agriculture and Food Systems*. In press.
- Poole, N. & J. Donovan. 2014. Building Cooperative Capacity: The Specialty Coffee Sector in Nicaragua. *J. of Agribusiness in Developing and Emerging Economies* 4 (2): 133-156.
- Donovan, J. & N. Poole. 2014. Partnerships in Fairtrade Coffee: Close-up Look at Buyer Interactions and NGO Interventions. *Food Chain* 4 (1): 34-48.
- Donovan, J. & N. Poole. 2014. Changing Asset Endowments and Smallholder Participation in Higher Value Markets: Evidence from Certified Coffee Producers in Nicaragua. *Food Policy* 44 (2014): 1-13.
- Donovan, J. & N. Poole. 2013. Asset Building in Response to Value Chain Development: Lessons from Taro Producers in Nicaragua. *International Journal of Agricultural Sustainability* 11 (1): 23-37.
- Stoian, D., J. Donovan, J. Fisk & M. Muldoon. 2012. Value Chain Development for Rural Poverty Reduction: A Reality Check and a Warning. *Enterprise Development and Microfinance* 23 (1): 54-69.

