

ECONOMIC STRENGTHENING FOR VULNERABLE POPULATIONS

# Promotion: Value Chains



## KEY POINTS

- A value chain (VC) is the process, including all of the players, services and activities, by which an initial idea or raw material reaches its final customer.
- VCs encompass entire market systems and affect multiple producers and businesses. VC development is fundamentally about first identifying the weakest links in the chain and strengthening them—aligning business interests that attract and keep all players engaged in productive collaboration to compete more effectively in local and global markets.
- Some VC interventions focus on vertical linkages while others focus on horizontal relationships to ensure that each link in the chain is performing its function and that support services flow smoothly through these relationships.
- Evidence shows that VC interventions are most successful when they are demand-driven, participatory and incorporate the private sector. There is still a gap in the evidence on the benefits of the VC approach to vulnerable populations—most projects have yet to disaggregate their monitoring data to identify the extent to which vulnerable populations directly and indirectly participate and benefit.<sup>1</sup>

## INTRODUCTION

Household enterprises are the fastest growing segment of the economy in terms of numbers, especially in Sub-Saharan Africa, contributing to aggregate employment, production and economic growth. Self-employment for low-income and vulnerable households matters, especially because as consumers or producers, they sell their labor and products in formal and informal markets to meet their needs for food and essential services. Most low-income households live in areas with limited government support and are more socially and geographically isolated. Yet they have to rely on self-employment—usually in traditional industries such as agriculture, handicrafts or tourism—to generate income. Better engagement in value chains (VCs) can help low-income households get the most from their entrepreneurial efforts by facilitating higher quality and more equitable linkages with their suppliers and buyers.

## WHAT IS THE VALUE CHAIN APPROACH?

A value chain includes all of the players, services and activities involved in bringing a product from an initial idea or raw material (e.g., growing grain) to its final customer (e.g., buying bread in the supermarket). Applying a VC approach requires a careful analysis of the entire market system and the firms that operate within a particular industry, from input suppliers to end buyers; support markets that provide practical, commercial and financial advice to that industry; and the business and regulatory environment that affects that industry. Better engagement in the VC can provide enterprises:

- Access to stable, growing and/or high value services and markets;
- More reliable vertical relationships working with the private sector;
- Beneficial horizontal relationships through producer-to-producer linkages;
- Opportunities to upgrade their process, product, function or linkages;
- Improved access to technology, practical knowledge, inputs, buyers and infrastructure; and
- Increased incomes and smoother cash flows while improving economic security.

Through the VC lens we can better understand how a product moves from producer to customer, examine the commercial and socioeconomic relationships, and identify ways to increase productivity and add value.

This product is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of FHI 360 and do not necessarily reflect the views of USAID or the US Government.

LIFT II is a PEPFAR-funded Associate Award under the FIELD-Support LWA, a cooperative agreement between USAID’s Microenterprise and Private Enterprise Promotion Office and FHI 360 and its consortium of 24 development partners. Learn more about FIELD at: [www.microlinks.org/field-support](http://www.microlinks.org/field-support).

For more information on LIFT II, please visit our website: [www.theliftproject.org](http://www.theliftproject.org)

**Tim Quick, PhD, MS** | 202.712.0974 | [tquick@usaid.gov](mailto:tquick@usaid.gov)  
LIFT II AOR • Senior Technical Advisor for HIV and AIDS & Nutrition, USAID/OHA • Co-Chair, PEPFAR Food and Nutrition Technical Working Group • Co-Chair, PEPFAR Care & Support Technical Working Group

**Jacqueline Bass** | 202.884.8513 | [jbass@fhi360.org](mailto:jbass@fhi360.org)  
LIFT II Project Director, FHI 360

## LIVELIHOOD STRATEGIES & ILLUSTRATIVE INTERVENTIONS



<sup>1</sup> Campbell R. July 2013. Feed the Future Learning Agenda Literature Review: Expanded Markets, Value Chains, and Increased Investment. Rockville, MD: Westat. [http://agrilinks.org/sites/default/files/resource/files/FTF\\_FEEDBACK\\_Value\\_Chains\\_Theme\\_Lit%20Review.pdf](http://agrilinks.org/sites/default/files/resource/files/FTF_FEEDBACK_Value_Chains_Theme_Lit%20Review.pdf)

## MAIN FEATURES OF VALUE CHAIN PROGRAMS

**Market Systems Approach:** Integrating low-income entrepreneurs into VCs require a thorough understanding of the whole system, how entrepreneurs and their families see the world, relate to others, gather information about product specifications and manage risk with potential rewards.

**Relationships:** Vertical relationships (e.g., linking buyers and sellers) are key to moving knowledge and benefits up and down the chain. Horizontal relationships (e.g., between very poor producers and their peer groups) allow for information sharing, collective bargaining, increased economies of scale, resource aggregation and skill-building among similar VC participants.

**Incentives:** VC interventions include incentives to affect sustainable behavior changes, adopt new technologies or techniques, or encourage producers to connect with others in the market—all activities that might otherwise be seen as too risky or without benefit. One example is embedded services, a package of support services that is paid for by the buyer or supplier, such as a processor providing training to farmer groups on improved harvesting techniques. These can be especially useful for low income producers who might not otherwise have access to training opportunities, as well as the processor who will ultimately get a better product in return.

**Trust:** Encourage trust and the adoption of transparent and fair systems from program onset. Start with low-risk, early return activities which demonstrate that each side is willing to follow through on commitments. Recognize that low-income producers need to make quick returns that meet their needs to stay involved.

**Upgrading Strategies:** Include process, product, function and chain upgrading. It is recommended that VCs approach upgrading in this order, although in practice these often overlap.

**Social Impacts:** Economic constraints often highlight other social challenges within a household. Poor access to resources, for example, is a major contributor to food insecurity and to sickness and mortality from HIV and AIDS. VC interventions should strengthen both the breadth and depth of social relationships to increase social capital and opportunities for reciprocity.

**Sustainability:** The focus of the VC approach on relationships and incentives supports the creation of self-sustaining systems that meet the business needs of all stakeholders and contribute to poverty reduction. When such systems are not created, results can rarely be sustained long term.

## WHO CAN BENEFIT MOST FROM VALUE CHAINS?

Running a business or enterprise (including informal ones) requires assets both tangible and intangible. Thus VC interventions are not recommended to families living in destitution or struggling to save; they are most appropriate for households and individuals who:

- Have assets to invest and want to increase and diversify their income;
- Are willing to engage in activities that might be deemed risky because they are new and require upfront investment but are ultimately higher return activities ; and
- Are willing to learn new skills, access new technology, make new market linkages, and grow their enterprises.

## CHARACTERISTICS OF VALUE CHAIN DEVELOPMENT PROGRAMS

Successful VC programs strive to follow these key principles:

**Systemic:** Tackle big and recurring obstacles. Identify issues that affect multiple clients and businesses, such as the access to or quality of input supplies, weak infrastructure, poor government regulations, etc.

**High-Impact:** Ensure that households earn significant income from stable, profitable and growing enterprises.

**Demand-Driven:** Decisions are made based on an understanding of what the market needs.

**Strengthens Enterprise Capacity:** Build on and build up clients' existing expertise and assets, including personal and business networks.

**Tailored:** Respond to the specific and expressed needs of clients and market actors.

**Sustainable at Multiple Levels:** Build responses that will sustain benefits at client, group, enterprise, and market levels. Stimulate a culture and a capacity to pay for assistance.

## FOR FURTHER READING

- Norell, Dan, and Margie Brand. *Integrating Very Poor Producers into Value Chains Field Guide*. World Vision. <http://microlinks.kdid.org/library/integrating-very-poor-producers-value-chains-field-guide>
- Norell, Dan, and Margie Brand. *Integrating Very Poor Producers into Value Chains Pocket Guide*. FHI 360. [https://www.microlinks.org/sites/default/files/resource/files/FIELD\\_PocketGuide\\_v2\\_web.pdf](https://www.microlinks.org/sites/default/files/resource/files/FIELD_PocketGuide_v2_web.pdf)
- Leveraging Economic Opportunities. *A Framework for Inclusive Market System*. ACDI/VOCA. [http://www.acdivoca.org/site/Lookup/LEO-Market-Systems-Framework/\\$file/LEO-Market-Systems-Framework.pdf](http://www.acdivoca.org/site/Lookup/LEO-Market-Systems-Framework/$file/LEO-Market-Systems-Framework.pdf)

<sup>2</sup> Jennifer Singer. Briefing Note: Background on VSLAs. The MasterCard Foundation. [http://www.mastercardfdn.org/pdfs/VSLA\\_Website\\_Brief.pdf](http://www.mastercardfdn.org/pdfs/VSLA_Website_Brief.pdf)

<sup>3</sup> Meaghan Gash and Kathleen Odell (2013). The Evidence Based Story of Savings Groups: A synthesis of Seven Randomized Control Trials. SEEP Research. <http://www.seepnetwork.org/the-evidence-based-story-of-savings-groups-a-synthesis-of-seven-randomized-control-trials-resources-1206.php>.

This publication is part of a practitioner oriented technical note series featuring economic strengthening interventions. It provides an overview of savings groups for consumption smoothing in the household vulnerability continuum of provision-protection-promotion. Additional value chain development briefs address implementation and M&E. LIFT II matches beneficiaries with appropriate household economic strengthening (HES) activities based on three categories of vulnerability.