



Suite 304  
4600 North Fairfax Drive  
Arlington, VA 22203 USA  
+1 703-243-9172  
fax +1 703-243-9123  
[www.actionforenterprise.org](http://www.actionforenterprise.org)

## **A SHORT GUIDE TO PRO-POOR VALUE CHAIN PROGRAM DESIGN**

*Prepared for the Australian Government Department of Foreign Affairs and Trade  
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by  
Action for Enterprise  
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## INTRODUCTION

The purpose of this short guide is to introduce the concept of pro-poor value chain development and describe tools that can help development practitioners to design and implement value chain programs. These programs would aim to increase income and provide jobs to a development program's targeted beneficiaries, such as small-holder farmers and small entrepreneurs.

## WHAT IS PRO-POOR VALUE CHAIN DEVELOPMENT?

The approach presented in this short guide combines the strengths of value chain analysis with the promotion of sustainable, market-based solutions that respond to the recurrent needs of targeted producers/enterprises whether micro, small or medium scale enterprises. The aim is to improve the way the market system operates, so that key market players, including a development program's target groups, will benefit through increased income and jobs. This is also referred to as "making markets work for the poor."

Value chain analysis is important in understanding markets, inter-firm relationships, and the critical constraints that limit the targeted producers/enterprises growth and competitiveness. Market-based, commercially viable solutions to these constraints can result in impact that is sustainable (ie, does not depend on continued aid funding) in the long run and that does not distort local markets. This program design approach includes collaborating with and supporting the initiatives of Lead Firms that can increase competitiveness and support the development of other stakeholders in their value chains, including the development program's target group(s).

There are many advantages for development programs to work with Lead Firms as providers of market-based solutions. As established market actors, Lead Firms have incentives to sustain positive relationships with targeted producers/enterprises beyond the development program's life, and so sustainability of the market-based solution is greatly improved. Lead Firms also have broad networks within the market and can apply market-based solutions to a greater scale at a much faster pace than a development project can. In a competitive market, Lead Firms providing market-based solutions (which help both targeted producers/enterprises and the Lead Firms) often establish new market standards, thus driving sustainable growth and innovation in the industry.

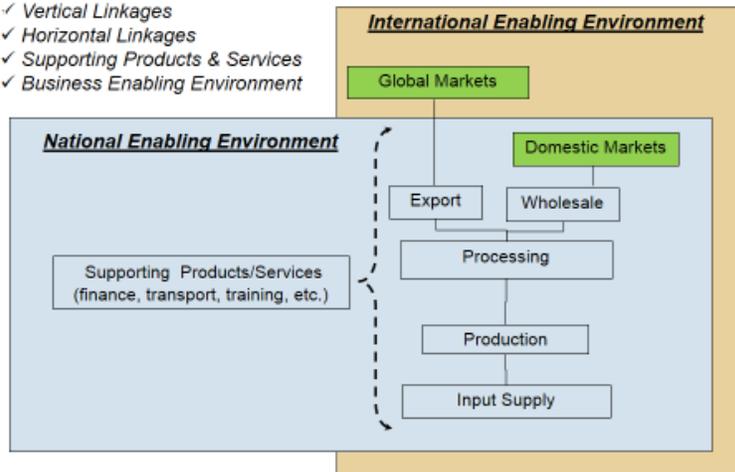
The approach presented has two major strengths. First, it is effective in generating benefits for a program's targeted beneficiaries as it is based on a comprehensive understanding of the value chain that the beneficiaries are operating in. Second, it helps ensure the sustainability of that impact because constraints are addressed by solutions that are based in the existing market and its relationships. It is therefore more likely to continue after the program ends. This differs from "traditional aid" that often supplies goods/services directly to target beneficiaries in the market, or otherwise takes on a market player role, which usually does not continue after aid funding ceases.

### KEY TERMS

**What is a 'Value Chain'?** The full range of activities (functions) and associated market actors that are required to bring a product from its conception to its end use and beyond. Value chain functions include input supply, production, processing, wholesaling, retailing, etc. Value chain market actors include producers, input suppliers, processors, exporters, retailers and others. A value chain can be defined by a particular finished product or service (wood furniture, green beans for export, etc). Also included in a value chain "lens" are linkages between market actors, supporting products and services, and the enabling environment.

## Value Chain Lens

- ✓ End Markets
- ✓ Vertical Linkages
- ✓ Horizontal Linkages
- ✓ Supporting Products & Services
- ✓ Business Enabling Environment



### Who are Targeted Producers/Enterprises?

Refers to the development program's target group (intended beneficiaries). Targeted producers/enterprises can include farmers, artisans, entrepreneurs, producers, service providers, and others that have existing or potential commercial relationships with other market actors in the value chain. Small-holder women farmers, for example, are often a target group for value chain programs and are considered to be a form of microenterprise.

**What is a 'Market-Based Solution'?** A way of addressing constraints facing targeted producers/enterprises in the value chain. For example, addressing lack of market access by smallholder green bean farmers can be addressed by promoting purchases of green beans by food processors.

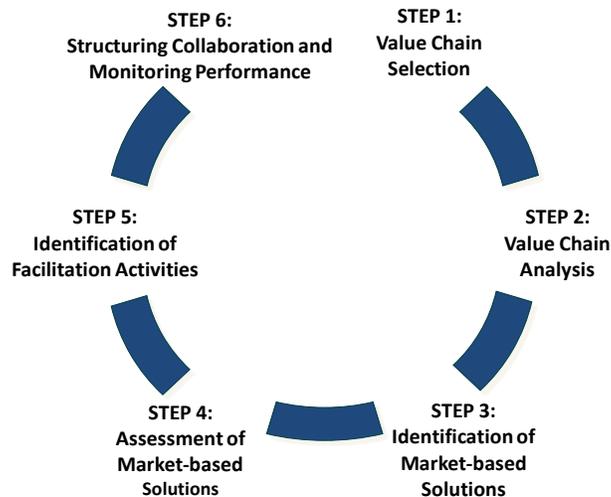
**What is a 'market actor'?** An individual or company participating in a market or value chain. Also referred to as a value chain participant.

**What is a 'Lead Firm'?** Lead Firms are dynamic market actors that have existing or potential commercial relationships with the development program's targeted producers/enterprises, to whom they provide important goods and services. Examples of Lead Firms include: input suppliers, buyers of the targeted producers/enterprises' products, brokers/traders, exporters, consultants/service providers, training organizations, and veterinarians. It is not necessary for Lead Firms to be the "leading firms" in the industry, although they may be. Note that NGOs, government agencies, and donor programs are not considered Lead Firms as they do not have sustainable commercial relationships with the targeted producers/enterprises.

## HOW TO DESIGN A PRO-POOR VALUE CHAIN PROGRAM

### Six-Step Approach

This approach consists of six steps that donors and practitioners involved in the field of economic development can use to design and implement effective programs. For an in-depth discussion of each of these steps, see AFE's "Value Chain Program Design: Promoting Market-Based Solutions for MSME and Industry Competitiveness" paper which can be found at [www.actionforenterprise.org](http://www.actionforenterprise.org).



*Step 1: Value Chain Selection* - Selection criteria such as unmet market demand, number of targeted producers/enterprises (including small-holder farmers) in the value chain, and the presence of market actors/Lead Firms with incentives to invest in their relationships with the target group are used to select value chains for more detailed analysis and targeting. It is at this stage that the development program can ensure that the value chain includes members of their target group population (ie, the poor, marginalized producers, women, producers in a particular geographic area, etc.) and that this population has the potential to benefit from value chain development.

*Step 2: Value Chain Analysis* - A value chain map is developed that graphically presents the relevant market actors and their relationships with one another. Interviews are conducted with value chain participants and “key informants” to identify constraints in market access, input supply, technology/product development, management/organization, policy, finance, and infrastructure. The analysis also develops an understanding of value chain governance structures and methods of inter-firm cooperation.

*Step 3: Identification of Market-based Solutions* - Commercially viable market-based solutions (*potential at this point*) are identified that can contribute to value chain competitiveness and address constraints identified in Step 2.

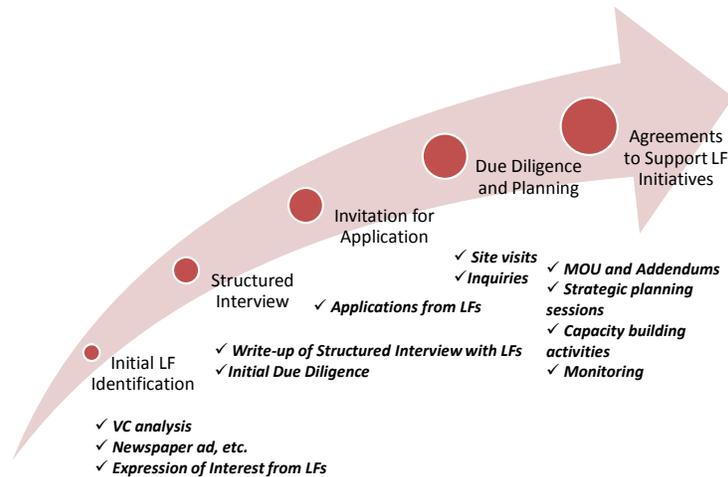
*Step 4: Assessment of Market-based Solutions* - Market-based solutions identified in Step 3 are assessed to identify: a) private sector Lead Firms with commercial incentives to provide the solutions in a sustainable manner; b) challenges Lead Firms face in providing market-based solutions to targeted producers/enterprises, and; c) the numbers of the target group that could benefit.

*Step 5: Identification of Facilitation Activities* - Lead Firms identified in Step 4 are invited to propose initiatives that will help them overcome the challenges they face in providing the market-based solutions in a sustainable manner. This is done through public “Invitations for Applications”, focus groups, strategic planning sessions and in-depth discussions. Interventions proposed by Lead Firms that meet program requirements can be supported with technical and financial assistance (on either an individual or cross-company basis).

*Step 6: Structuring Collaboration and Monitoring Performance* - Performance measurement systems are developed based on a causal model that connects project facilitation activities to intermediate and final results (outputs, outcomes, and impacts). After agreeing to the initiatives that it can support, the development program and Lead Firms structure their collaboration through Memorandums of Understanding (MoUs) and technical/financial support agreements that define the roles, responsibilities, and financial obligations of each party.

## TOOLS FOR COLLABORATING WITH LEAD FIRMS

AFE has developed a series of tools that are used to initiate and then manage collaboration with Lead Firms. These tools are shown in the graphic below, which is followed by brief descriptions of each. For an in-depth presentation of each of these tools, see [www.actionforenterprise.org](http://www.actionforenterprise.org).



*Value Chain Analysis* - The development program interviews representatives from all the market actors involved in bringing the value chain product from raw material to finished stage - and then beyond to its end markets. During this process, Lead Firms with significant linkages to the targeted producers/enterprises and incentives to invest in their upgrading are often identified.

*Public Advertisements* - Public advertisements (in newspapers, through industry associations, etc.) can be used to identify Lead Firms that potentially fit the profile and criteria that the development program establishes. Lead Firms can submit an expression of interest to collaborate with the development program. The program reviews the expressions of interest against predetermined selection criteria, and decides which Lead Firms merit follow-up.

*Structured Interviews* - The development program conducts in-depth interviews with selected Lead Firms to: ascertain whether they meet program selection criteria; determine or validate their interest and incentives in collaboration; better understand their commercial relationships with producers and other market actors; and begin discussions about initiatives they could undertake to build competitiveness and improve/expand the products, services and support (market-based solutions) they provide to the targeted producers/enterprises in their supply chain or distribution channel. These interviews may be in addition to those already conducted during value chain analysis.

*Invitations for Application* - Lead Firms successful in the interview process are invited to identify and propose initiatives (that they will be responsible for organizing and managing) that can be facilitated with strategic support by the development program. This is not a competitive 'winner takes all' exercise. All Lead Firms that submit an application and propose initiatives that meet the program's established criteria should be eligible for support, contingent on funds being available. Lead Firm initiatives should be activities that they might not otherwise carry out on their own in the near term due to high risk, financial costs, or lack of technical skills. By offering strategic technical and financial support, the development program provides incentives for the Lead Firms to undertake these investments and initiatives. It thereby helps to "buy down the risk" and encourages Lead Firms to extend its activities in a way that will ultimately also benefit target groups.

*Due Diligence and Planning* - In evaluating an application submitted by a Lead Firm and before signing an agreement the development program should conduct due diligence using a "due diligence checklist" (that includes site visits) to make sure that the Lead Firm and its proposed initiatives are legitimate.

*Agreements to Support Lead Firm Initiatives* - Carefully structuring collaboration with Lead Firms is done through MOUs and MOU addendums. The MOU provides an overview of proposed collaboration (along with general legal provisions) while the addendums present specific Lead Firm initiatives along with the technical and financial support that the development program will provide. Advantages of having a general MOU followed by more detailed addendums include: signing a general MOU shows commitment without allocating resources; MOUs can show progress to donors while specific Lead Firm initiatives are developing; and addendums allow and encourage flexibility through an incremental approach in which learning takes place and trust develops between the Lead Firm and the development program.

## **PRINCIPLES TO GUIDE IMPLEMENTATION**

Once agreements have been signed, the development program can then support Lead Firms in the implementation of their initiatives/interventions keeping in mind the following guiding principles and lessons learned.

### *Promote Sustainable Relationships among Market Actors in the Value Chain*

- Allow Lead Firms and targeted producers/enterprises to work out the most appropriate structures for buying or selling without imposing preconceived organizational structures
- Stay out of commercial, intermediary, or negotiation roles in the value chain; do not negotiate with market actors on behalf of targeted producers/enterprises
- Understand the needs of all market actors and ensure that they have the requisite incentives and interest to work together

### *Establish Good Collaboration with Lead Firms*

- Be prepared for some handholding in supporting the Lead Firms to launch their initiatives as they may have different systems and ways of operating
- Don't overdesign/overpromise – initial collaboration should build trust that can be expanded upon
- Share examples of how Lead Firms have benefitted through investing in the upgrading of producers/enterprises in their supply chain or distribution channel

### *Professionalism, Confidentiality and Neutrality*

- Be professional in negotiating MOUs and addendums and deliver what is promised
- Ensure that Lead Firm secrets are kept confidential (i.e. do not share confidential information with others). This process may require special staff training and development of confidentiality or conflict of interest statements.
- Act in an impartial manner by recognizing the important role that all market actors have in the value chain and not having a bias in favor of one type of market actor (or organizational structure)

### *Understand Private Sector, Business Principles, and Lead Firm Risks*

- Recognize and demonstrate an understanding of the important role that all value chain actors play and recognize the importance of Lead Firms as innovators and economic drivers
- Hire people who understand business, the realities of the target group, and have good interpersonal skills
- Demonstrate an understanding of the commercial nature of the Lead Firms and how they must be cost conscious and disciplined in all their activities
- Demonstrate empathy for the challenges and risks that Lead Firms face in making new investments and developing/expanding direct relationships with producers/enterprises
- Recognize the positive contributions that market actors make to the economy and producers

### *Ensuring the Sustainability of Impact*

- Ensure that by the end of program, market relationships and linkages between Lead Firms and the targeted producers/enterprises are “complete” and commercially viable (sustainable)
- Help to ensure sustainability by developing good monitoring systems