

Value Chain Strategy Design:

A Tool for Planning

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Introduction

OBJECTIVE: To develop a strategy for prioritizing and implementing changes in value chains

This tool is intended to help donors, implementers and governments develop a strategy for prioritizing and implementing changes in value chains. It outlines a process for analyzing opportunities and constraints in the value chain, identifying underlying causes of those constraints, and determining changes needed to address them. This process results in a set of clearly defined program activities and roles for various stakeholders to implement them. It also ensures that the program meets cross-cutting objectives or reaches specific beneficiaries, such as women, vulnerable populations or food insecure households.

BEFORE STARTING

This tool is intended to be used after you have already selected your priority value chains. It does not cover the process for how to prioritize and select value chains. Information on that topic can be found online (see the resource pages at the end of this document).

In order to fill out the workbook, it is essential to have already conducted a review of the primary and secondary data and analytics on the specific value chain(s) for the country or region in which you are working. For information on the components of a thorough analysis, see the Value Chain Development Wiki page on analysis at http://microlinks.kdid.org/good-practice-center/value-chain-wiki/how-conduct-value-chain-analysis.

AFTER COMPLETING

This exercise is part of a larger project design process. The information outlined through this tool should be vetted with various stakeholders and integrated into a comprehensive project approach that should also incorporate elements such as a knowledge management system and a plan to ensure the sustainability of impact.

NOTE: This process is iterative. As changes occur in the value chain, in markets or in the enabling environment, parts or all of this design process will need to be repeated. The effectiveness of project interventions should be reassessed at regular intervals and adaptations made to increase impact.

4 STEPS TO DESIGNING VALUE CHAIN PROJECTS

CONSTRAINTS

Step 1

ANALYZE OPPORTUNITIES &

Step 2 **DEVELOP A STRATEGY**

Step 3

PRIORITIZE ACTIVITIES

Step 4

DESIGN PROJECT

STEP 1: ANALYZE OPPORTUNITIES AND CONSTRAINTS

A. Market Opportunities

- Select one of your value chains and determine two or three priority market opportunities.
 - End markets define both opportunities and risks. Therefore, start with the end markets to look for an identifiable opportunity for growth that would affect large numbers of people and lead to some combination of cheaper, more readily available food and/or increased incomes. Be as specific as possible when identifying the end market.
- Consider whether your program will ultimately aim to achieve a particular cross-cutting objective, such as improving nutrition, or reach a special beneficiary group, such as women or the very poor. If so, address the implications of the market opportunities on this objective or group.

CONSIDER

- Dynamics: How are these opportunities likely to change over time?
- Impact: Is this likely to benefit a large number of people?

SAMPLE END MARKETS

- The domestic rural market
- Domestic supermarket chains
- Diaspora markets in Europe

SAMPLE CROSS-CUTTING OBJECTIVES

- Food security
- Nutrition
- Gender equity
- Extreme poverty
- Natural resources management
- Conflict mitigation

EXAMPLE

- There is a market opportunity for relatively low-cost fortified maize meal in rural areas in the north of the country. Imported fortified maize meal is expensive and supply does not match demand.
- Fortified maize meal is important for nutrition—particularly for children.

STEP 1: Analyze opportunities & constraints

Identify:

A. market opportunities

- B. key constraints
- C. underlying causes of constraints
- D. changes needed to address constraints to end market opportunities

Target beneficiaries or cross-
cutting objective:

Priority market opportunities (Explain what it is & why it is important)	Implications for target beneficiaries or cross-
VALUE CHAIN:	cutting objective
1.	
2.	
3.	

STEP 1: ANALYZE OPPORTUNITIES AND CONSTRAINTS

B. Key Constraints

Identify the most important constraints to taking advantage of the promising market opportunities.

CONSIDER

- What are the critical services (finance, input supply, research, market information, technology supply, etc.) on which these opportunities depend? Are they weak or missing?
- Are there policy or regulatory constraints?
- Are the relationships between industry actors (including producers) ineffective or adversarial?
- Do any of the constraints particularly affect your target beneficiary group or cross-cutting objective?

EXAMPLE

- There are few large-scale mills in the north of the country, and those that do exist are in poor condition.
- There are no national standards or guidelines regarding the type and quantity of micronutrients that should be used to fortify maize.
- There are low levels of trust between producers and buyers in the maize market due to high variation of yields and quality.

STEP 1: Analyze opportunities & constraints

Identify:

A. market opportunities

B. key constraints

- C. underlying causes of constraints
- D. changes needed to address constraints to end market opportunities

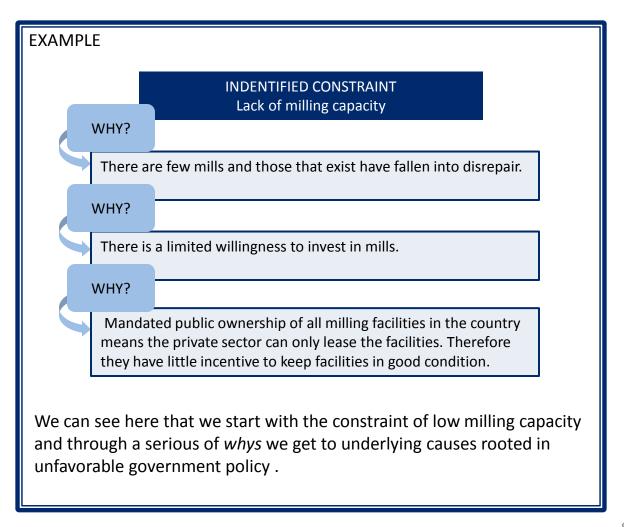
Main constraints to maximizing market opportunities	Implications for target beneficiaries or cross-cutting objective
1. a.	
b.	
C.	
d.	
2. a.	
b.	
C.	
d.	
3. a.	
b.	
C.	
d.	

STEP 1: ANALYZE OPPORTUNITIES AND CONSTRAINTS

C. Underlying Causes

Often visible constraints, like those you have identified, are only a symptom of deeper underlying problems. These underlying causes need to be addressed to sustainably resolve constraints.

- First identify the immediate causes for the identified constraints.
- Ask yourself "why" each of the immediate causes occurs. Repeat this step several times until you have identified root causes.
- Try to rank the root causes in terms of significance and distinguish which issues require urgent action and which need to be addressed over a longer period of time.



STEP 1: Analyze opportunities & constraints

Identify:

- A. market opportunities
- B. key constraints

C. underlying causes of constraints

D. changes needed to address constraints to end market opportunities

What are some of the underlying causes of the constraint?	Ranking of importance or immediacy of root causes
1 . a.	
b.	
C.	
d.	
2. a.	
b.	
C.	
d.	
3. a.	
b.	
C.	
d.	

STEP 1: ANALYZE OPPORTUNITIES AND CONSTRAINTS

D. Changes Needed

Having determined the causes of constraints to accessing opportunities in end markets that would lead to growth and reduce poverty, you need to determine changes needed to address these cause. Some changes might be needed to *enable* better performance in the value chain, and some changes might be needed to create *incentives* for actors to change practices or behaviors.

- Consider those root causes that you ranked as most important or urgent. For each, identify what needs to change to i) enable and ii) incentivize improvements in the target value chain.
 - An enabling change will allow value chain actors to access key information, services or products necessary for upgrading.
 - An incentivizing change will motivate value chain actors to improve their performance (e.g., enhanced trust or beneficial policies).
- Keep in mind particular constraints affecting your target groups or crosscutting objectives.

CHANGES THAT ENABLE AND INCENTIVIZE VALUE CHAIN IMPROVEMENTS

Enabling changes:

- Better access to information about end market quality requirements
- Increased access to financial services in rural areas

Incentivizing changes:

- Reductions in tariffs on inputs
- Formal contracts for decreased risk
- Price premiums for quality produce

EXAMPLE

- To enable change, better access for producers to high-quality maize inputs is needed to ensure consistent quantity and quality of yields.
- To incentivize change, the government could allow private ownership of storage facilities or create public legislation around food fortification.

STEP 1: Analyze opportunities & constraints

Identify:

- A. market opportunities
- B. key constraints
- C. underlying causes of constraints
- D. changes needed to address constraints to end market opportunities

CONSIDER

- Access to markets
- Affordable inputs
- Production technologies
- Storage

What changes are needed to

	chain performance?	
1. a.		
b.		
C.		
2. a.		
b.		
C.		
3. a.		
b.		
C.		

STEP 1: Analyze opportunities & constraints

Identify:

- A. market opportunities
- B. key constraints
- C. underlying causes of constraints
- D. changes needed to address constraints to end market opportunities

CONSIDER

- Policies
- Trust / cooperation
- Price premium paid for quality

What changes are needed to **INCENTIVIZE** improved value chain performance?

	value chain performance?	
1. a.		
b.		
C.		
2. a.		
b.		
С.		
3. a.		
b.		
C.		

STEP 2: DEVELOP A STRATEGY

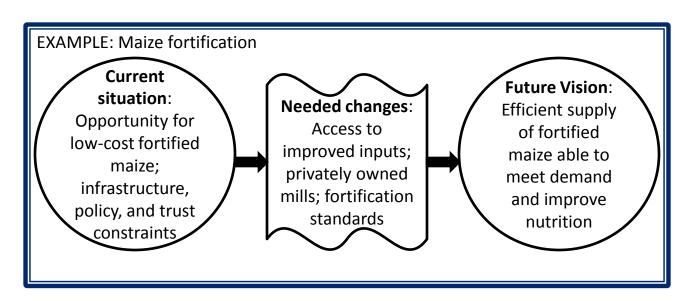
The next step is to develop an overarching strategy for the long-term development of the value chain.



- Using your opportunities and constraints analysis from Step 1, summarize the current state of the value chain.
- Next clearly define a future vision of how the value chain should function in 5 or 10 years. Be ambitious but realistic.
- Finally, identify the "big picture" changes needed to get there. (In later steps, you will determine project activities that can bring about these changes.)

CONSIDER

- In the future, what target markets or opportunities would be accessed and through what channels?
- How can smallholders or other target beneficiaries participate and profit?
- Will the changes actually lead to your desired vision (is your logic sound)?



STEP 2: Develop a strategy Describe: A. The current state of the value chain B. The vision for value chain in 5 or 10 years C. The changes needed to reach that vision **CURRENT STATE CHANGE NEEDED VISION**

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STEP 2: Develop a strategy

Describe:

- A. The current state of the value chain
- **B.** The vision for value chain in 5 or 10 years
- C. The changes needed to reach that vision

Refer back to pages 11 and 12

CURRENT STATE

CHANGE NEEDED

VISION

STEP 3: PRIORITIZE ACTIVITIES

A. Identify Activities

Now that you know the current situation of the value chain, where you want it to go (your vision), and what is needed to get there, you can think about specific types of activities to facilitate the process. This will be the foundation of your project design.

Identify two to three solutions or activities to address each change needed.

CONSIDER

- Will the activities address the root causes of constraints?
- Will they enable and incentivize improved performance by all value chain actors?
- Will they lead to stronger, mutually beneficial relationships between value chain actors?
- Can the activities be scaled-up?
- Will the results be sustainable?
- Will the activities actually lead to the desired change (is your logic sound)?

EXAMPLES

- Organizing milling entrepreneurs to decide if they can build a common advocacy message to local government officials regarding ownership
- Capacity building of value chain actors, such as training producers on best practices and demonstrating contractual arrangements that improve quality and increase trust between farmers and buyers
- Link civil society and the public sector to harmonize a nutrition strategy with fortification guidelines

KEEP IN MIND...

- We do not have the resources to do everything, and so next you will prioritize activities. (Leave the ranking column blank for now.)
- In a later step you will define the roles of government, the private sector, donors and civil society in implementing the activities you prioritize.

STEP 3: Prioritize activities

Identify:

A. activities

- B. convergence and conflict
- C. impact on target group or cross-cutting goals
- D. compiled list of priorities

What project activities will lead to the changes needed to enable and incentivize improved value chain performance?

incentivize improved value chain performance?		
Change Activities to Bring About Change Ranki		Ranking



➤ Before continuing, return to the beginning of the book and repeat these steps for each of your other selected value chains.

STEP 3: PRIORITIZE ACTIVITIES

B. Identify Areas of Convergence or Conflict

Addressing an underlying constraint in one target value chain may mitigate a constraint in another target value chain. For example, improving farmer access to inputs may have a positive impact on a number of agricultural crops. If this is done across a range of supporting markets—like financial services, extension services and ICT—you can achieve a catalytic impact across multiple value chains.

Conversely, activities designed to improve the performance of one value chain could inadvertently have negative results on another value chain. For example, promoting certain cash crops could divert labor away from staple crop production.

- Looking at the activities identified on page 18 for each of your target value chains, identify any activities that are likely to positively impact multiple value chains.
- Identify any activities recommended for one value chain that are likely to negatively impact another target value chain.

CONSIDER

- Can the activity be modified (or can another activity be added) to prevent negative impacts on other target value chains?
- Can the activity be broadened so that it will reduce constraints across more than one value chain?

EXAMPLES

- Encouraging private ownership of milling facilities would improve private sector investment in infrastructure across other value chains (e.g., rice)
- Improving efficiency in maize production could divert labor and other resources away from other value chains

STEP 3: Prioritize activities Identify: A. activities B. convergence and conflict C. impact on target group or cross-cutting goals D. compiled list of priorities **CONFLICT CONVERGENCE** Activities for one value chain **Activities for one value chain that** that could POSITIVELY impact could **NEGATIVELY** impact another value chain another value chain Possible resolution

STEP 3: PRIORITIZE ACTIVITIES

C. Identify Impact on Target Beneficiaries or Cross-cutting Issues

- ➤ Looking at the activities identified on page 18 for each of your value chains, identify those activities that are likely to most positively impact your target beneficiary groups or cross-cutting objectives.
- Suggest ways these activities could be adapted to have a stronger impact on your target beneficiary groups or cross-cutting issues.
- Taking into consideration the potential for convergence and conflict, and the likelihood of positive impact on your beneficiary group or cross-cutting objective, rank the activities listed on page 18 for each of your value chains.

EXAMPLES

- If your program is also aiming to improve women's participation in value chains, you can adjust the capacity building activity so that trainings are held at times and places accessible to women.
- Promote intercropping of legumes with the maize to improve soils and encourage better nutrition.

STEP 3: Prioritize activities

Identify:

A. activities

B. convergence and conflict

C. impact on target group or cross-cutting goals

D. compiled list of priorities

D. compiled list of priorities		
Target group or cross-cutting objective	Activities likely to have the most positive impact	Ways to strengthen impact on target group /cross-cutting objective

Go back to page 18 and rank the listed activities.

STEP 3: PRIORITIZE ACTIVITIES

D. Compile List of Priority Activities

- Look back over your list of activities for each value chain and the ranking you assigned to each one. Compile a "master list" of the highest ranked activities from each of your value chains.
- Check that your activities achieve maximum convergence across the targeted value chains. If necessary, add new activities that will have positive, systemwide impact.
- Also be sure to consider whether this new list sufficiently addresses the constraints facing your target beneficiary groups or cross-cutting issues. If not, suggest new activities or ways they could be adapted to achieve the needed impact.

You will use this list in Step 4 to design your project.

EXAMPLES

- Add a component to raise awareness of public health issues
- Identify specific niche markets in the value chain that are accepted for women's participation
- Include training for landless laborers that work in the sector

STEP 3: Prioritize activities

Identify:

A. activities

B. convergence and conflict

C. impact on target group or cross-cutting goals

D. compiled list of priorities

List the priority activities across your selected value chains and/or new activities that will create convergence and impact your target group/crosscutting objectives.

Description of Activity

STEP 4: DESIGN PROJECT

A. Identify Roles

Taking one prioritized activity at a time from your list on page 25, identify appropriate roles for the various stakeholders in implementing or supporting this activity.

CONSIDER

- Who does? What are the appropriate roles for government, private sector, civil society, donors, etc.?
- Who pays? How sustainable is the proposed solution? How can private sector investment be promoted and sustained (even with changes in government)?
- Who makes/enforces the rules? How can you ensure that the private sector and targeted beneficiaries (women, food insecure households, etc.) both participate in setting and evaluating policies and programs and also benefit from the changes?
- Does this activity fulfill a one-time need, or something that will be needed over the long term? If it will be needed over the long term, who will do it and pay for it in the future? How do we ensure this happens?
- Identify any major capacity building needs for key actors to ensure they are able to effectively play their assigned role.

EXAMPLE

- Activity: Establish clear fortification standards and guidelines
 - Civil society advocates for and markets the importance of fortification
 - O Donors support research into proper fortification procedures, which micronutrients to include, etc.
 - Private sector provides input to ensure guidelines are cost-effective, realistic, and that sufficient demand exists or can be created for the purchase of fortified maize meal
 - Government compiles and releases guidelines
 - Private sector trains staff on new guidelines and develops marketing strategies to promote its nutritious products

Identify:

A. roles

B. adjustments to existing programs

C. programming gaps

ACTIVITY:

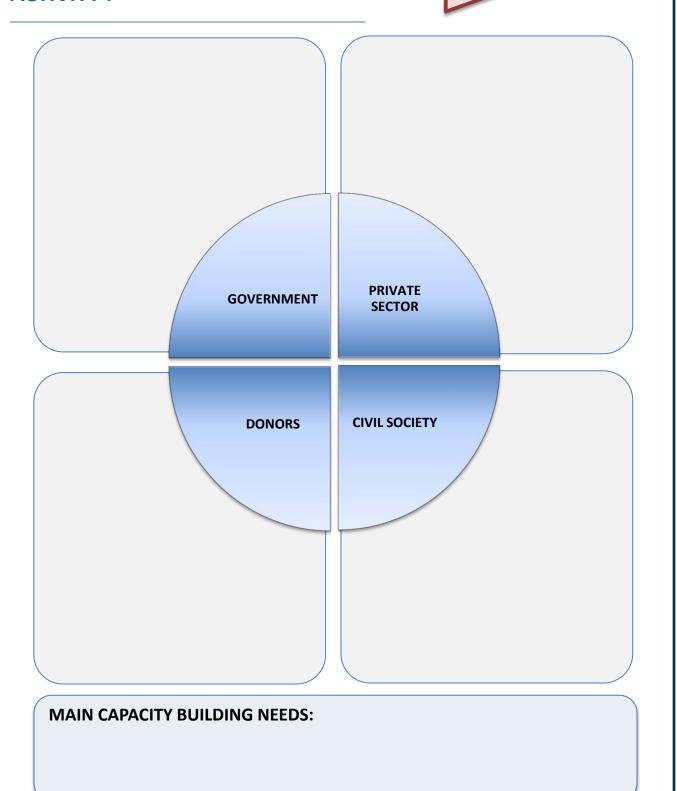
CONSIDER

Who does what?

Who pays for what?

Who makes/enforces rules?

Who benefits?



Identify:

A. roles

B. adjustments to existing programs

C. programming gaps

ACTIVITY:

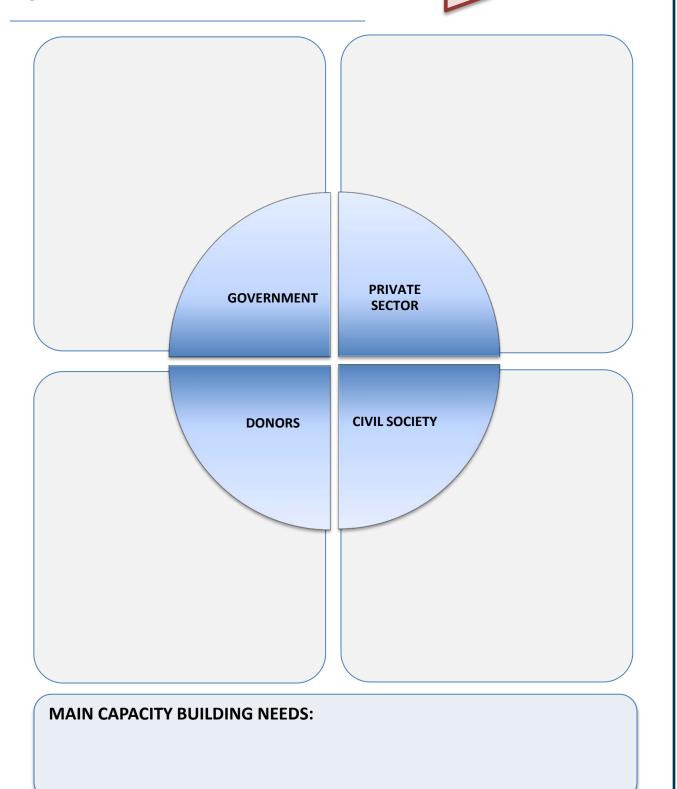
CONSIDER

Who does what?

Who pays for what?

Who makes/enforces rules?

Who benefits?



Identify:

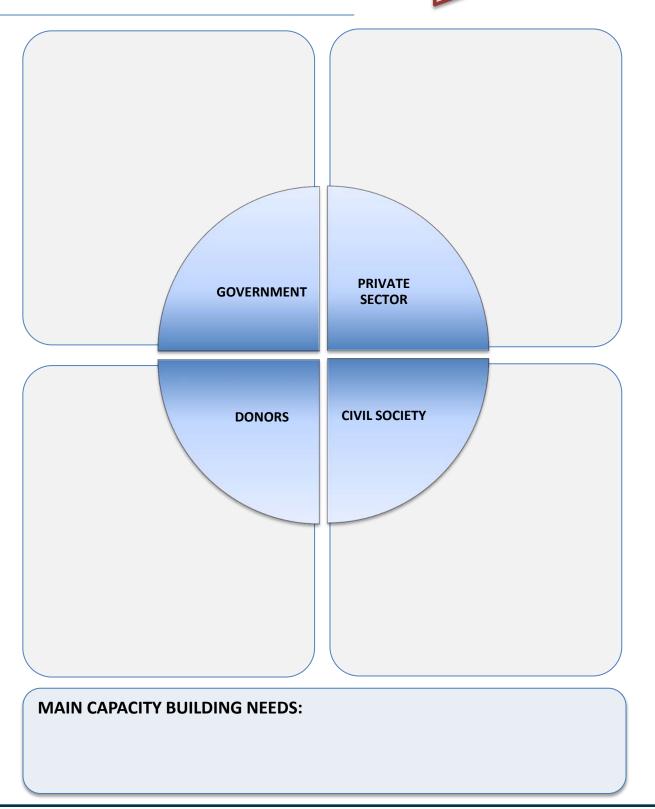
A. roles

B. adjustments to existing programs

C. programming gaps

ACTIVITY:

CONSIDER
Who does what?
Who pays for what?
Who makes/enforces rules?



Identify:

A. roles

B. adjustments to existing programs

C. programming gaps

ACTIVITY:

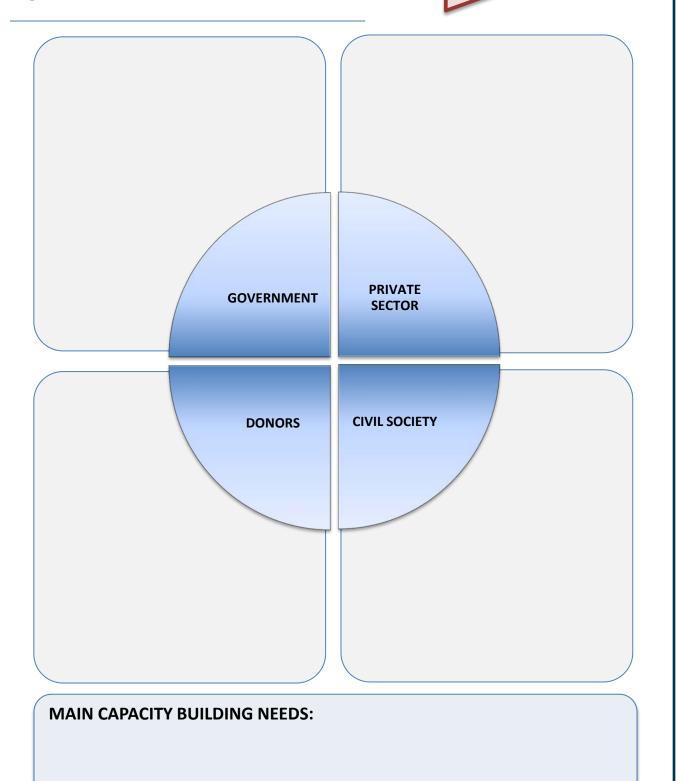
CONSIDER

Who does what?

Who pays for what?

Who makes/enforces rules?

Who benefits?



STEP 4: DESIGN PROJECT

B. Identify Needed Adjustments to Existing Programs

- Considering the prioritized activities and roles for various stakeholder groups laid out in step 4a (pages 27-30), think about existing programs that intervene—or could be adapted to intervene—in these same areas.
- ➤ What changes should be made to ensure these programs incorporate some of the ideas from steps 3b, 3c and 4a?
- Will the current and proposed activities lead to sustainable impacts, either by fulfilling a one-time need, or by ensuring provision of something needed over the long term?
- How do we plan to monitor results and share learning on what is and is not working? Does this learning feed back into future programming?

EXAMPLE

- The ministry of health currently fortifies small quantities of maize meal for institutional use (at hospitals, clinics, orphanages, etc.) and one NGO has been trying to promote fortification.
- Ensure representatives from these efforts are brought into the process of establishing new guidelines for maize fortification.
- Research whether it would be more efficient for the ministry of health to purchase the fortified meal it needs from the new private sector suppliers once they have complied with new regulations. This existing demand could stimulate private sector investment in maize meal fortification.

STEP 4: Design project CONSIDER Identify: Will activities lead to sustainable A. roles impact? B. adjustments to existing programs Is there adequate M&E? C. programming gaps Are lessons learned being shared? **Prioritized Existing Programs Needed Adjustments** and Activities **Activities**

STEP 4: Design project CONSIDER Identify: Will activities lead to sustainable A. roles impact? B. adjustments to existing programs Is there adequate M&E? C. programming gaps Are lessons learned being shared? **Prioritized Existing Programs Needed Adjustments** and Activities **Activities**

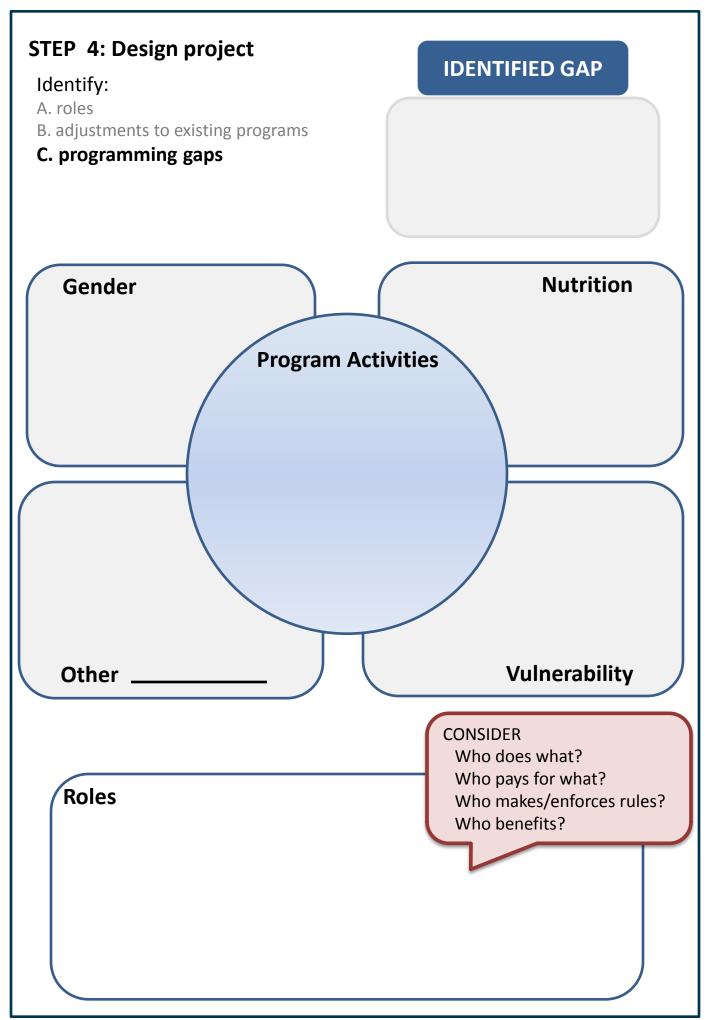
STEP 4: DESIGN PROJECT

C. Identify Programming Gaps

- ➤ It is likely that existing programs will not be sufficient to implement all of the ideas from steps 3b, 3c and 4a. What prioritized activities cannot be addressed through current programs?
- Outline the parameters of a new program to address some or all of these ideas, considering the following:
 - How would this program(s) address cross-cutting issues such as gender, nutrition and vulnerability?
 - What kind of monitoring and evaluation would be needed?
 - Who would carry out this program(s)?
 - How would this program(s) be funded?

EXAMPLE

- The program already addresses the cross-cutting issue of nutrition.
 Marketing fortified maize should take into account the characteristics of the household member most likely to purchase it, including his or her gender.
- A strong monitoring and evaluation system should track the following things:
 - Progress in establishing standards for maize fortification
 - Training in fortification and adherence to standards by fortifiers
 - Sales of fortified maize
 - Improved household nutrition
- The activities will be carried out and funded through a combination of government, donor and private sector funds.



Conclusion

By the end of this work book, you should have:

- An analysis of opportunities and constraints in the value chain
- An understanding of underlying causes for the constraints
- A long-term **vision** of improved performance in the value chain
- A list of **changes** to achieve that vision
- A set of prioritized activities that will achieve the desired changes
- Clearly defined **roles** for implementing the activities
- If needed, a focus on particular cross-cutting issues or beneficiary groups with specific ways to ensure they benefit from value chain activities
- Ideas for adjustments to existing programs and the parameters for new programs to carry out these activities

The next steps are to identify the actions that need to be taken to translate these elements into value chain project that will lead to economic growth with poverty reduction. Things to consider when outlining next steps include:

- What stakeholders need to buy in to this planning process? How will this be accomplished?
- What meetings need to be held? When? Who will set up these meetings?
- What technical resources will be needed to adjust current programs and design new ones?
- How can communication be continued moving forward?

Resources listed in the next section can help you in the process. Questions or comments on this tool can be sent to Jeanne Downing at jdowning@usaid.gov or Ruth Campbell at rcampbell@acdivoca.org

VALUE CHAIN DEVELOPMENT RESOURCES

Systems Approaches to Economic Development

- The USAID Value Chain Development Wiki: www.microlinks.kdid.org/vcwiki
- Making Markets Work for the Poor (M4P): http://www.markets4poor.org/
- GTZ ValueLinks: http://www.valuelinks.org/index.php/material/manual
- World Bank, Building Competitiveness in Africa's Agriculture: A Guide to Value Chain Concepts and Applications:
 - http://siteresources.worldbank.org/INTARD/Resources/Building_Competitivenes s_in_Africa_Ag.pdf
- USAID Briefing Papers on the Value Chain Approach: http://microlinks.kdid.org/vcresources
- Key Features of the Value Chain Approach, USAID Presentation: http://microlinks.kdid.org/vcapproachseminar

Value Chain Analysis and Selection

- USAID Value Chain Analysis Wiki Pages: http://microlinks.kdid.org/vcanalysis
- USAID End Market Research Toolkit: http://microlinks.kdid.org/endmarkettoolkit
- USAID End Market Wiki Pages: http://microlinks.kdid.org/vcwikiendmarkets
- USAID Value Chain Selection Wiki Pages: http://microlinks.kdid.org/vcselection
- USAID, A Portfolio Approach to Value Chain Development Programs: http://microlinks.kdid.org/library/portfolio-approach-value-chain-development-programs
- M4P, Making Value Chains Work Better for the Poor: A Toolbook for Practitioners of Value Chain Analysis: http://www.markets4poor.org/sites/default/files/file/ Publications/M4P1/VC%20toolbook_eng.pdf

Business Enabling Environment

- Business Enabling Environment Wiki Pages: http://microlinks.kdid.org/vcwikibee
- ACTESA, COMESA, Guiding Investments in Sustainable Agricultural Markets in Africa: http://aec.msu.edu/fs2/gisama/GISAMA_PS_2.pdf
- Unscrambling Africa: Regional investments and policies required for raising agricultural productivity, Michigan State University: http://www.aec.msu.edu/fs2/gisama/ls2_unscrambling_Africa.pdf
- USAID BizCLIR (Business Climate Legal and Institutional Reform): http://bizclir.com/cs/countries/africa/kenya http://bizclir.com/cs/countries/africa/tanzania/overview

Monitoring and Evaluation

- Assessing the Effectiveness of Economic Growth Programs, USAID: http://microlinks.kdid.org/assessingeg
- USAID Monitoring and Evaluation Wiki Pages: http://microlinks.kdid.org/vcwikime
- USAID Industry Pathways Wiki Page: http://www.microlinks.kdid.org/vcwikipathways

Cross-cutting Themes

- USAID Vulnerable Populations and the Value Chain Approach Wiki: www.microlinks.kdid.org/vcwikivulnerable
- Promoting Gender Equitable Opportunities in Agricultural Value Chains, USAID: http://www.usaid.gov/our_work/crosscutting_programs/wid/pubs/GATE_Gender_Ag_Value_Chain_Handbook_11-09.pdf
- Gender in Value Chains Learning Group: http://genderinvaluechains.ning.com/
- ILO Gender Bureau: http://www.ilo.org/gender/



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