



VALUE CHAIN SELECTION IN THE CONTEXT OF INCLUSIVE MARKET SYSTEMS DEVELOPMENT

INTRODUCTION

This briefing paper is designed to provide guidance to donors, implementers and practitioners on value chain selection within activities seeking to develop [inclusive market systems](#) (see text box). The selection of value chains, according to specific criteria, is typically made during project or activity design. However, value chain selection often needs revisiting during implementation to correct faulty assumptions or accommodate changes in the country-specific political and physical environment, end market, or chain itself. Consistent with the inclusive market systems framework, selected value chains should have the potential to contribute to the development of a sector that is:

- *Competitive*—meeting market demand and maintaining or growing market share,
- *Inclusive*—providing benefits to economically vulnerable and marginalized groups, and
- *Resilient*—able to address, absorb and overcome shocks in the market.

The weighting of these three characteristics, and how they are interpreted, will depend on the local context and on the specific developmental goals of the project or activity, such as poverty reduction, food security, gender equity and environmental sustainability. This briefing note is intended to provide guidance on how to structure the value chain selection process during project and activity design, and revisit it during implementation.

PORTFOLIO APPROACH

To maximize the contribution to the development of a competitive, inclusive and resilient economy, a growing number of activities take a portfolio approach¹; that is, they select multiple value chains with diverse benefits and risk profiles. The selection of multiple chains allows an activity to simultaneously meet several development objectives. For example, a mixture of cash and food crops may be selected to generate income, improve nutrition, and empower women. Furthermore, by selecting chains that are not subject to the same risks—such as susceptibility to price volatility, adverse weather, logistical breakdowns, policy change, etc.—the realization of a specific risk in one chain does not undermine overall progress of the activity. At the household level, support to a variety of value chains can encourage diverse livelihoods that spread risk, maximize the sustainable use of land and labor resources, and allow for greater income smoothing.

¹ For more on a portfolio approach, see Charette, D. (2011) [A Portfolio Approach to Value Chain Development Programs](#). USAID.

INCLUSIVE MARKET SYSTEMS

A *market system* is a dynamic space in which private and public actors collaborate, coordinate and compete for the production, distribution and consumption of goods and services. The behavior and performance of these actors are influenced by other actors' decisions, and by rules, incentives and the physical environment. Market systems are composed of vertically and horizontally linked firms and the relationships embedded in these linkages; end markets, input and support service markets; and the environment in which they operate, which may include socio-cultural, geographic and political factors, infrastructure and institutions. *Inclusive* market systems are those that engage and benefit a range of actors including the poor, women, youth, ethnic minorities and/or other marginalized groups who are often excluded—or even exploited—by traditional market systems.

Source: Campbell, R. (2014). A Framework for Inclusive Market System Development. USAID.

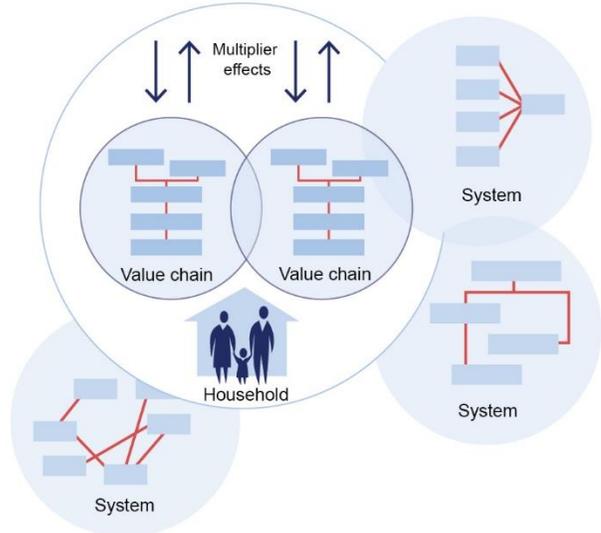
It should also be remembered that value chains are interconnected. The end products of one chain may serve as inputs into other chains. For example, soy may be key to the production of feed for the poultry industry, and a failure of the soy crop could seriously impact poultry production. Similarly, the productivity of one chain may be dependent on the functioning of a second. For example, maize and legume value chains may both be targeted by an activity in order to promote intercropping. Inputs and services, such as fertilizer or transportation, have their own value chains, and may be a strategic choice for an activity. Finally, even when there is no technical interdependency between value chains, there may be a socio-cultural connection. For example, many smallholder farmers feel the need to grow a certain quantity of a staple crop before investing time and resources in other, potentially more lucrative, crops.

STIMULATING SYSTEMIC CHANGE

Just as specific value chains may be interconnected, so too, market systems are connected to other systems, such as health systems, education systems, socio-cultural systems, and ecosystems (see figure 1). Changes in one system can affect the functioning of other systems.

While no single activity can be expected to simultaneously transform multiple systems, such interconnectivity sometimes allows practitioners to trigger broad-scale change in the market system by targeting linkages with other systems. For example, the media can play an important role in creating demand for grades and standards; educational institutions can be important partners in improving extension services; and changes in policies regulating the use of information and communication technologies (ICTs) can dramatically improve the efficiency and cost-effectiveness of delivery for a range of financial and informational services.

Figure 1: Interconnected systems



Source: Campbell, R. (2014). A Framework for Inclusive Market System Development. USAID.

Often the importance of such linkages becomes apparent over time. Allowing flexibility to work outside of selected value chains during activity implementation can therefore be beneficial.

Table 1: Examples of interconnected markets or systems

Consumer Services	Feeder Value Chains	Feeder Services	Investment Climate Services
<ul style="list-style-type: none"> • Health care • Education • Energy • Water • Sanitation • Housing • Telecommunications • Public transport • Vocational training 	<ul style="list-style-type: none"> • Agricultural inputs • Agro-tools • Irrigation • Manufacturing equipment and spare parts (light engineering) 	<ul style="list-style-type: none"> • Agricultural extension • Certification • Veterinary services • Product design • Trade show management • Business linkage services 	<ul style="list-style-type: none"> • Media • Marketing • Management training • ICTs • Software • Accounting and financial consultancy • Financial services

Source: Michlbradt, A.O., and M. McVay. (2006). [The 2006 Reader](#). ILO.

SELECTION CRITERIA

The selection of sectors, and value chains within those sectors, is generally strongly influenced by government priorities, as reflected in strategic documents and high-level project concept papers. Within these parameters, value chains can be selected for their potential for market competitiveness, inclusive growth, and resilience to climate change and other shocks and stresses. Implementation feasibility should also be a factor in value chain selection.

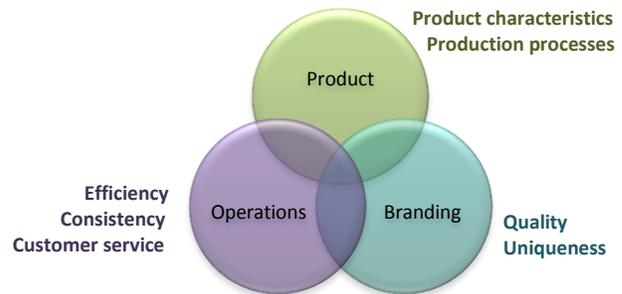
Competitiveness potential

Competitiveness in domestic, regional and/or export markets is essential for sustainable impact. Competitiveness is defined as an industry's ability to achieve and maintain an edge over market rivals through an optimal combination of efficiency, product differentiation and access to new or niche markets (see figure 2). Significant, sustainable increases in income and employment are dependent on industry growth and competitiveness. When measuring competitiveness, it is important to remember that value chains and their end markets are dynamic, and that some possible chains may not exist or may be only nascent at the time of selection.

Tools such as the Boston Matrix and Porter's Five Forces² can be used to assess competitiveness. Simpler criteria that can be included in the selection process as an indicator of competitiveness include:

- Market size and share
- Market growth and opportunities
- Perceived product quality
- Competition and substitutes (global threats)
- Supporting markets and embedded services
- Business enabling environment (infrastructure, policy and socio-economic environment)

Figure 2. Ways to increase competitiveness



Inclusive growth potential

Care is needed to ensure that the gains derived from value chain development and sector growth benefit the target population, including women, youth, and other typically marginalized groups. A failure to conduct cost-benefit analysis (including consideration of opportunity costs) has at times led to “beneficiaries” being encouraged to engage in value chains that have had a net negative impact on their wellbeing. Factors to consider when analyzing the risks and benefits to the target population include:

- Benefits derived as producers, service providers, laborers and consumers
- Opportunities to strengthen market relationships and practices that will affect multiple income streams
- Potential future impact—both positive (e.g., increased skills acquisition) and negative (e.g., environmental degradation)
- Potential risks due to increased travel, poor working conditions, heavier time and energy burdens, exposure to hazardous substances, etc.

When working with vulnerable populations, selected value chains will generally have low barriers to entry (given limited financial and human capacity), high formal and/or informal employment potential,³ and diversified risk profiles. The implications of introducing new cash crops or commercializing existing food crops should be carefully

² For more on these and other tools to measure competitiveness, see <https://www.microlinks.org/good-practice-center/value-chain-wiki/competitiveness-assessment-tools>

³ For data and analysis on the role of labor in the livelihoods of rural “farming” populations, see Mueller, B., and M. Chan. (2015). [Wage Labor, Agriculture-Based Economies, and Pathways out of Poverty: Taking Stock of the Evidence](#). USAID.

considered, especially in areas where there is no surplus land or labor, the new crop would be grown at the same time as traditional food crops, or the availability or price of staple foods is highly variable. Intra-household dynamics should also be considered. Probable impact on women's access to and control over land, labor, and other productive assets should be investigated, particularly when commercializing crops traditionally grown by women.

Resilience

For the impact of market systems development activities to be sustainable, selected value chains must enable the target population to adapt to shocks and stresses in the policy, market or natural environment. In addition to selecting a portfolio of risk-diversified value chains (as discussed above), evidence to date⁴ suggests that value chain selection should prioritize chains with the following characteristics, where possible:

- Diversity of end-market products, post-harvest opportunities, and marketing channels
- Multiple buyers, sellers, and service providers
- Operating within a relatively predictable, supportive policy environment
- Opportunities to develop transferable (non-value chain-specific) skills

Implementation feasibility

Effective market systems interventions place target value chains on a trajectory to competitive, inclusive and resilient growth, and do so within the timeframe and budget of the activity. One indicator of a potentially attractive value chain in this regard is industry leadership—i.e., the willingness of one or more lead firms to invest time and resources in strengthening the value chain, a commitment to an equitable distribution of benefits, and a willingness to work with other stakeholders to solve industry-wide problems. Complementary indicators of implementation feasibility include the following:

- Current and planned private-sector investment
- Access to adequate transportation, processing and storage infrastructure
- Conducive formal and informal business environment (policies, regulatory practices and social norms)

PROCESS OF VALUE CHAIN SELECTION

The process of selecting value chains can take a few days or several months, depending on the number of value chains considered, the selection criteria used, and the availability of primary and secondary data sources. Value chain selection requires a combination of qualitative and quantitative data collection around a subset of the competitiveness, inclusive growth, resilience, and implementation feasibility indicators outlined above. A ranking matrix is often used to compile and analyze the data.⁵ Staggering the value chain selection process over a protracted period of time (e.g., the first two years of the activity) can allow activities to take advantage of emerging opportunities in value chains previously less suited to selection. Value chains selected prior to the start of a multi-year activity should be periodically reassessed to ensure they remain the best choice; and, ideally, activity design should incorporate the possibility of adding new chains if significant opportunities emerge.

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⁴ See Irwin, B., and R. Campbell. (2015). [Market Systems for Resilience](#). USAID.

⁵ For examples of ranking matrices, see <https://www.microlinks.org/good-practice-center/value-chain-wiki/ranking-matrix>