DESIGNING A VALUE CHAIN PROJECT

This brief aims to support effective design using a value chain development approach. Specifically, it provides guidance on how to integrate and apply key principles of the value chain approach at different stages and across various aspects of the design process.

I. THEORY OF CHANGE
As with all designs, the value chain project design process needs to be guided by a theory of change that builds on a development hypothesis to say how a set of interventions will catalyze desired change. A theory of change provides the “story” of how we expect goals and objectives to be reached, what will need to happen for them to be reached, and what assumptions are being made. In addition, projects need a means of explaining and tracking progress towards the goals and objectives—through a results framework, logframe, or similar tool. These foundational components of design are essential, but are not unique to the value chain approach and are therefore not the focus of this brief.

Before designing a value chain project, the relevant strategic documents need to be gathered and reviewed, as laid out in USAID’s project design guidance. Theories of change should be grounded in the Country Development Cooperation Strategy (CDCS) and other applicable strategy documents, such as Feed the Future strategies. Some of these strategies will identify specific target value chains, while others will focus on constraints and opportunities that cut across multiple value chains.

II. PORTFOLIO APPROACH
It is important to note that value chain development activities do not necessarily focus only on one chain. In fact, to mitigate the risks associated with working in dynamic and sometimes volatile markets, some activities take a portfolio approach—selecting multiple value chains with diverse risk profiles. This consideration of risk factors during the value chain selection process, helps to ensure that a portfolio is not over-concentrated in value chains with extreme sensitivity to any single factor, such as price volatility, susceptibility to adverse weather, logistical breakdowns or political risks. The portfolio approach also allows for greater impact through targeting complementary value chains—such as food and cash crops, or economic activities that maximize land and labor resources. In addition, such an approach may allow USAID to indirectly foster change in highly-politicized value chains through interventions in a complementary or cross-cutting chain. For example, addressing input delivery mechanisms and export licensing for groundnuts could have a spillover effect on the maize value chain. As in finance, actively managed value chain portfolios rely on a consistent stream of performance data that guides periodic assessment or rebalancing of portfolio holdings to optimize donor returns.

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1 This brief uses USAID’s definition of project and activity as defined in ADS.
2 For USAID’s Project Design Guidance, see http://pdf.usaid.gov/pdf_docs/PDACS686.pdf
3 For more information on using a portfolio approach, see “A Portfolio Approach to Value Chain Development Programs.” https://www.microlinks.org/library/portfolio-approach-value-chain-development-programs
USAID’s project design guidance calls for projects to be based on rigorous analysis. Building on country and sector analysis conducted at the CDCS stage, the analytical process should incorporate a range of analyses such as gender, environmental, financial, economic, social soundness and institutional analyses. In addition, value chain development projects are informed by value chain analysis. Value chain analysis—consisting of end market analysis and chain analysis—complements and incorporates aspects of these mandated analyses. This focus on analysis is reflected in the first two principles of the value chain approach (see text box). This analysis may be conducted during design at the project or activity level, and sometimes it is best done during activity start-up.

**PRINCIPLE 1. TAKE A MARKET SYSTEMS PERSPECTIVE**
Projects applying a value chain approach seek to understand a market system in its totality: the firms that operate within a value chain—from input suppliers to end market buyers; the support markets that provide technical, business and financial services to the value chain; and the business environment in which the value chain operates. Opportunities and constraints may lay in any part of this system. They may be sector-specific, such as outdated production technologies; or systemic, such as an unpredictable policy environment that deters investment. The analytical process therefore needs to be broad in scope.

In addition, since systems can be complex, analysis needs to go beyond a simple listing of constraints to investigate connections among them. For this reason, it is essential that different analyses—often conducted by specialists in a given area (for example, policy experts, economists, nutritionists, environmental scientists or gender specialists)—are integrated. This may mean having different analyses conducted simultaneously with multi-disciplinary teams, or ensuring that incoming analysts are briefed with findings to date.

**PRINCIPLE 2. LOOK TO END MARKETS TO DEFINE OPPORTUNITIES AND RISKS**
The value chain approach aims to develop value chains that can become and remain competitive in local, regional and international markets. Analyzing the various market channels available to a value chain to identify their potential for growth, benefits, and risks is an essential part of the design process. While end market analysis is typically conducted for high value products and services, it is often neglected for activities targeting food staples. However, even in the case of staple food crops, end market analysis is still an important part of the design process as producers must be able to profitably sell food surpluses into local or regional markets if they are to be motivated to invest in increased or improved production.4

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4 For more on the advantages of taking a value chain approach to food staples, see “Integrating Food Security and the Value Chain Approach.”
A good end-market analysis answers several questions. First, where are the opportunities for growth in the target sector? The analysis should make clear where the end market opportunities are currently, and where they are likely to be in the future, based on industry and consumer trends. This could include multiple market segments with different risk profiles. Second, can the value chain compete locally or internationally? The end market analysis should clarify how well a given value chain can compete in the various market segments. Can it compete locally against imports or in regional or international markets? Third, what upgrading is needed for the value chain to compete? Can the value chain produce more cheaply than the competition? Can it deliver a higher quality or differentiated product to market? Or can it deliver the product at a time of year that its competitors cannot? End market analysis should identify the technologies, services, policies, and shifts in behavior that will need to occur for the value chain to compete.

How much end market and value chain-specific information is “enough” to do a design depends on the context. Sometimes the target value chains are already identified prior to design, and there may be recent and relevant analyses that can be drawn upon. Sometimes time and available resources are too limited to permit a thorough analysis of all potential value chains, or even of pre-identified chains. At the other extreme, multiple, lengthy tomes that describe every facet of a market system may be too unwieldy to effectively inform the project design process. Analyses should be brief and to the point, driven by the objectives of the design process. The amount of information available should influence the design process. Solicitations resulting from this process should reflect how much is known and what still needs to be analyzed. Where limited information is available, solicitations can mandate implementing partners to conduct further analysis, and can provide initial outcomes to be confirmed during the early months of the activity. Where more information is available, the design process can more clearly state what kinds of results are expected. However, since market systems are dynamic, and activities sometimes operate in volatile environments, even solicitations based on extensive analysis should allow implementers the flexibility to adapt interventions in response to change. Further, it is always wise to have implementers update the analysis during the start up phase.

IV. APPLYING VALUE CHAIN PRINCIPLES TO DESIGN

PRINCIPLE 1. TAKE A MARKET SYSTEMS PERSPECTIVE
Finance, policy, inputs, processing, trade, and so on, are all part of the market system in which a value chain operates, and effectiveness in one part of the system is essential to the functioning of other parts. When designing value chain projects, therefore, efforts should be made to maintain cohesion among activities addressing different parts of the same market system. Where possible, designers should avoid breaking down (or unbundling) value chain projects into separately contracted functional activities—for example, a production activity, a post-harvest handling activity and a marketing activity.

However many mechanisms are used to implement a project, coordination among them is essential. Solicitations should call for implementers of the different activities to collaborate with one another, and to apply strategies that incorporate other stakeholders, including government, the private sector and local organizations. Likewise, donors need to work closely with one another and with relevant government representatives to ensure synergy among different donor-funded projects.
Successful project design also requires the harmonization of approaches. Solicitations should ask for activities and approaches that will build on (and not undermine) the activities and approaches of others. Stakeholder meetings—for donors, implementers, host government, private-sector and civil-society representatives—can be helpful in facilitating communication and opening the way for the creation of a shared vision.

**PRINCIPLE 2. LOOK TO END MARKETS TO DEFINE OPPORTUNITIES AND RISKS**

The value chain approach emphasizes the need to consider end market opportunities and risks. Opportunities in local or international markets can drive the growth and transformation of a value chain. Generally there are multiple actual and potential end markets for a given product, each with different demand characteristics, potential returns and risks. It is important to analyze the various market segments in order to identify markets appropriate to the intended beneficiaries, benchmarking key attributes against the competition.

The analytical process inevitably leads to a long list of constraints: problems with inappropriate or unavailable inputs, a weak enabling environment, a lack of knowledge of improved production and processing practices, poor market linkages, and so on. The second value chain principle—look to end markets to define opportunities and risks—instructs us to prioritize constraints according to their impact on the ability of value chain actors to exploit existing or emerging market opportunities.

**PRINCIPLE 3. ADDRESS UNDERLYING CONSTRAINTS, NOT SYMPTOMS OF THESE CONSTRAINTS**

The value chain approach further asks why—if these market opportunities exist—have actors not addressed the constraints themselves? Sometimes the reasons for this are obvious. For example, producers may be unaware of a new production technology, or may lack access to credit to purchase it. They may lack access to the resources necessary for production, or to markets for their products. But not all constraints are due to a lack of knowledge or access. For example, producers may fail to adopt a new technology because it is culturally unacceptable; price premiums may be insufficient to make the investment worthwhile; or perhaps market volatility makes them wary of investing. The value chain approach seeks to change the way value chain actors behave. This requires understanding the social, political and economic incentives that drive behavior.

Designs should therefore reflect the need to achieve lasting behavior change and should avoid focusing only on delivering technical fixes to the most obvious constraints. Projects or activities should not simply replicate interventions that improve transactions between one firm and another, but should address systemic problems such as pervasive mistrust, a lack of product standards, weak advocacy capacity, and so on.\(^5\)

**PRINCIPLE 4. FACILITATE ONGOING IMPROVEMENTS**

The final key principle of the value chain approach is the facilitation of ongoing improvements. To facilitate is to catalyze performance improvements in a value chain without becoming a part of that chain. The objectives of facilitation are to strengthen the ability of value chains to grow over time, beyond the scope of a project, and to continue to provide widespread benefits long after the project ends. Taking a facilitation approach means that implementers should avoid directly providing goods and services to value chain actors, where possible, to reduce the likelihood of donor dependence. Instead activities should seek to strengthen relationships among actors and use commercial incentives to drive change.\(^6\)

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\(^5\) For more on addressing systemic constraints, see “Program Design Process” on the value chain wiki. [http://microlinks.org/good-practice-center/value-chain-wiki/program-design-process](http://microlinks.org/good-practice-center/value-chain-wiki/program-design-process)

\(^6\) To read more about facilitation, see “Understanding Facilitation.” [http://microlinks.org/library/understanding-facilitation-briefing-paper](http://microlinks.org/library/understanding-facilitation-briefing-paper)
Solicitations written with facilitation in mind should therefore instruct implementing partners to work with and through a range of market system actors to strengthen their ability and willingness to invest in performance improvements that will directly or indirectly benefit the poor. These market system actors must take ownership of the performance improvement process rather than viewing it as a donor initiative. Relationships should be formed and strengthened among market system actors—not between actors and the implementing partner. By de-emphasizing the role of the implementer, local ownership and the prospects for sustainability are increased. This can create a challenge, however, in ensuring that USAID gets the appropriate recognition for its investments.

Implementers applying a facilitation approach should also use subsidies to catalyze lasting change rather than simply ensuring results within the activity timeframe. For example, funds could be used to lower the risk of investment in a new technology for a finite period of time to demonstrate the benefits of the investment; or partial subsidies could be given to value chain actors to design and test new business models, the success of which would be communicated to encourage broader uptake.
Since activities operate in dynamic and unpredictable environments, flexibility needs to be built into designs. In addition—despite many advantages in terms of cost, scale and sustainability\(^7\)—working through market actors, rather than providing goods and services directly, can mean a slower, less predictable start-up phase. This means that solicitations should focus primarily on higher-level objectives and impact targets, which need not change over time, rather than on lower-level activities that may change considerably over the course of implementation. These higher-level targets can be made based on the analysis conducted during the CDCS or project design stages. Illustrative output and outcome targets can be included in a design, but should be reassessed during implementation. USAID and the implementing partner can use monitoring data to learn together what outcomes are ambitious but feasible, and which interventions best contribute to these results.\(^8\)

V. INTEGRATING COLLABORATING, LEARNING AND ADAPTING

In line with USAID’s project design guidance, activities should be situated in a learning framework that operates simultaneously at multiple levels—at a higher, strategic level in the CDCS; at the Development Objective level in project designs; and at the activity level in the structure of individual mechanisms.

Within this framework, activities need to collaborate to learn from each other and ensure synergy. USAID’s approach, developed by the Bureau for Policy, Planning and Learning, is called collaborating, learning and adapting (CLA). CLA facilitates a process for strategic collaboration among partners, systematically generates and captures knowledge, facilitates the exchange of knowledge, and promotes a learning culture. CLA posits that development efforts yield positive changes more quickly if they are collaborative, test new approaches in a continuous search for improvement and adapt based on what works and what does not work.\(^9\)

While this need for collaborating, learning and adapting is common to all projects, it is especially important for value chain projects—which seek to change whole systems through interventions at many different points in the system. The success or failure of one set of interventions affects other interventions. For example, interventions in production and marketing cannot be successful if complementary interventions in the area of policy fail to remove constraints such as seed monopolies, poorly implemented fertilizer subsidy programs, or export bans. Furthermore, different interventions are often interacting with the same government and market actors, and trying to benefit the same target populations. The need for collaboration is greatly magnified if value chain projects are implemented through multiple contracting mechanisms. CLA offers a means to reintegrate these pieces of a multi-activity project.

VI. CONSIDERATIONS IN WRITING THE SOLICITATION

When writing a Request for Proposals (RFP), integrating clear and consistent technical requirements throughout the solicitation is critical to the successful outcome of the value chain activity. Requirements and priorities described in the Scope of Work (section C) should be reflected in the Instructions to Bidders (section L) and the Evaluation Criteria (section M). Section C lays out the problem statement, objectives, activity areas and expected results of the project. Section L describes what is expected of bidders in terms of their proposal submission. This includes the amount of detail required for targets, work plans, etc. Key personnel requirements are also included here. Section M

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\(^7\) For a review of the evidence base on the results of value chain projects, see “Driving Innovation to Scale in Agricultural Market Systems.” http://agrilinks.org/media/leo-brownbag-1-dr-elizabeth-dunn-impact-llc

\(^8\) For more on targets and indicators, see “Monitoring and Evaluating a Value Chain Project.” https://www.microlinks.org/training-group/monitoring-and-evaluating-value-chain-project

\(^9\) For more on CLA, see “USAID Program Cycle Learning Guide.” http://usaidlearninglab.org/library/usaid-program-cycle-learning-guide-0
describes the relative weighting of scoring criteria. If, for example, personnel should have familiarity with the value chain approach, this should be reflected in how personnel are evaluated.

There are a number of common pitfalls in the design process. First, there is a temptation to rush straight to the results framework (or logical framework). The results framework is very helpful in visually representing the outputs, outcomes and impact that contribute to the development objective. However, without first exploring the problem and developing a theory of change, important elements can be overlooked. Second, it is common to want to skip ahead to what needs to be done—focusing on solutions that have proven successful elsewhere. But without considering the problems and their underlying causes, wrong assumptions could be made and inappropriate solutions suggested. Third, technical fixes to tangible problems are easier to suggest than dealing with issues such as mistrust, misaligned incentives, poor policy environments, a lack of entrepreneurial culture, and the like. Failing to address these underlying issues, however, could lead to unsustainable, short-term results.

Additional considerations when writing an RFP for a value chain solicitation include the following:

- When describing the activity components, consider providing textboxes of what is considered to be success or emerging learning, perhaps using examples from another country, rather than specifying interventions.
- If there are analyses that need to be conducted, or updated, in order to inform the work planning process, include this requirement.
- Remember the central importance of learning, ongoing evaluation and knowledge management to using a facilitation approach and ensure that bidders describe structures and activities to enable this during implementation.
- When providing instructions for the Performance Management Plan, balance the need to set targets with maintaining flexibility to shift interventions during implementation in response to new opportunities and shocks.

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